Ontario

ONTARIO BUDGET

Investing in People
Expanding Opportunity

Ontario's New Economic Strength

The Honourable Greg Sorbara
Minister of Finance

Budget Papers

Ontario

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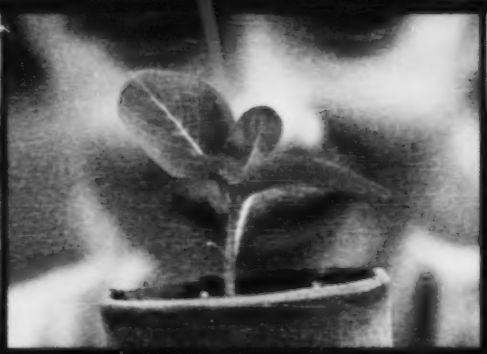

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FOREWORD

Expanding opportunity for Ontarians is the primary goal of the McGuinty government. The government wants everyone to have a fair opportunity to succeed. It is the right thing for Ontario's families and the smart thing for the economy.

The government has made great progress, but there is much more to do. For this province to be at its best, Ontarians must be 13 million of the best-educated, most highly skilled, healthy, productive and innovative people in the world. This fourth Budget builds on the McGuinty government's plan by focusing on three precious resources: our children, our environment and our communities.

This Budget is the next step in the McGuinty government's plan to strengthen Ontario by strengthening its people. The government is committed to making opportunity more accessible and success more achievable. The proposed new Ontario Child Benefit (OCB) would deliver $2.1 billion over five years to nearly 1.3 million children from low-income families. The OCB would help families by shortening the gap between getting by and getting ahead. The government is increasing social assistance rates for the third time.

This Budget proposes to increase the number of new housing allowances to 35,000; increase support to Legal Aid Ontario; enrich benefits for about 155,000 injured workers; and phase in a higher minimum wage over three years. The Budget also proposes to provide seniors with more flexibility in managing their finances. These initiatives build on the government's plans to help improve the quality of life of all Ontarians.

Protecting the environment that Ontarians share is also an economic imperative. It is possible to have a green economy and a growing economy at the same time. Those who ignore climate change will see their economies decline, but those who lead the fight can reap huge economic benefits. This spring, the McGuinty government will announce a clean air plan. In the interim, this Budget builds on progress with some immediate funding initiatives: support for the Trees Ontario Foundation, a home energy audit rebate and cutting-edge research in bio-based auto manufacturing and alternative fuels.

The communities in which Ontarians live are at the centre of creating new opportunities. This Budget proposes a reduction in high Business Education Tax (BET) rates as well as measures to create a property tax framework for the province that is fair and predictable. The new BET system will reduce rates over seven years for more than 500,000 businesses in Ontario, saving them $540 million annually when fully implemented.

The 2007 Budget builds on the progress that the government has made in eliminating the deficits Ontario has faced. The fiscal deficit has been addressed. In 2006–07, a surplus of $310 million is anticipated. The medium-term fiscal outlook now projects a surplus of $0.4 billion in 2007–08, if the reserve is not required, and surpluses of $1.3 billion in 2008–09 and $1.6 billion in 2009–10.

When the government came to office in 2003, it also inherited significant deficits in health care, education and infrastructure.

Progress has been significant. In health care:

- over 500,000 Ontarians who did not have a family doctor now have one
- hiring over 8,000 more nurses by the end of 2007–08
- first-year medical school spaces being increased by 23 per cent from 2004–05 to 2009–10
- wait times are down for key procedures
- the government is reforming how it delivers health care to make it more efficient and more effective.

In education:

- primary class sizes are down and test scores are up
- 22 per cent increase in average per-student funding by 2008–09
- more students are graduating from high school
- almost 6,800 repair and construction projects are underway or completed in Ontario schools
- the number of student days lost to labour unrest has decreased by 95 per cent during the tenure of this government.

In postsecondary education:

- the $6.2 billion Reaching Higher plan made the largest postsecondary education investment in 40 years
- 86,000 more full-time students are enrolled in colleges and universities
- funds for student aid are doubling
- access to and quality in Ontario's universities, colleges and apprenticeship programs are improving.

In infrastructure:

- the ReNew Ontario pfan is investing more than $30 billion in key infrastructure projects across the province
- the government is investing in transit and transportation through Move Ontario ($1.2 billion) including the subway from Toronto to York Region
- rural and northern communities have expanded their infrastructure, with funds from the gasoline tax, the Rural Infrastructure Investment Initiative and low-interest loans.

The McGuinty government is proud of its record. But the job will not be finished until every challenge has been met, every opportunity has been seized and every Ontarian has a fair shot at success.

CHAPTER 1

Investing in People and Expanding Opportunity

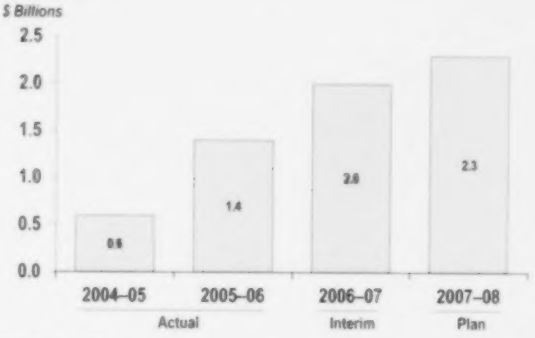
Section A: Expanding Opportunities for Children and Families

Overview

Expanding opportunities for all helps build a strong and prosperous Ontario. The government recognizes that giving everyone a fair chance to succeed is the right thing to do — for society and for the economy.

If each and every Ontarian is to be able to participate in the province's prosperity, the appropriate support and opportunities must be available. That means giving children who are growing up in low-income families in Ontario a better start in life. It means helping low-income families and those receiving social assistance. It means more affordable housing for low-income Ontarians and additional supports for seniors.

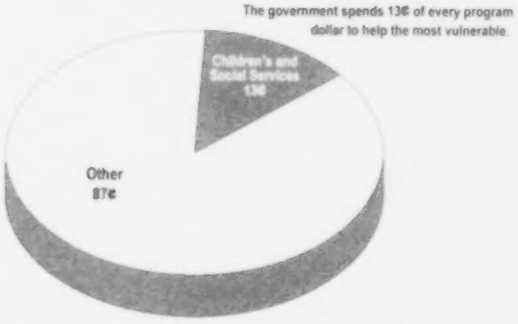
Increases to Spending on Children's and Social Services Since 2003–04 **Chart 1**



Source: Ontario Ministry of Finance

The government proposes new programs to expand opportunities for families and vulnerable Ontarians that, upon maturity, would result in an increase in annual funding of $1.2 billion. First among these initiatives is a new Ontario Child Benefit (OCB), which would provide an additional $2.1 billion in benefits cumulatively over the first five years. This new measure would benefit nearly 1.3 million children annually. The new OCB would help remove the barriers that social assistance recipients face when returning to work.

2007–08 Program Expenses **Chart 2**



Note: Includes Ministries of Children and Youth Services, and Community and Social Services.
Source: Ontario Ministry of Finance

The government is further enhancing early childhood learning by committing an additional $25 million in 2007–08 and $50 million annually starting in 2008–09 to support Best Start programs, in addition to the $63.5 million in annual funding announced in the 2006 Ontario Budget. To address local service gaps facing vulnerable children and youth with mental health needs, the government is increasing funding by a further $8 million annually.

For the third time, the government is increasing social assistance rates. This year's two per cent increase would provide an additional $83 million in benefits annually to over 420,000 Ontario families with more

than 196,000 children, as well as families receiving Temporary Care Assistance and Assistance for Children with Severe Disabilities. In addition, the government proposes to permanently flow through all future increases to the federal National Child Benefit Supplement (NCBS).

Since 2003, the government has increased the minimum wage by 17 per cent to $8.00 an hour. This Budget proposes to increase the hourly minimum wage to $10.25 in 2010, with three annual increases of $0.75 starting on March 31, 2008.

Low-income families need affordable housing. The government proposes three new initiatives: $127 million to municipalities for new affordable housing or to rehabilitate existing housing; a five-year, $185 million housing allowance, which would bring the total number of new housing allowances for low-income families to 35,000; and $80 million for off-reserve aboriginal housing.

To help provide security for seniors, the government proposes three initiatives. The government proposes to give seniors enhanced access to their locked-in accounts, which originate with funds transferred from pension plans. The government would also, for the fourth consecutive year, enhance the Ontario Property and Sales Tax Credits for seniors. In 2007, about 745,000 senior families would benefit from an estimated $104 million in improvements since 2003 to these credits. This Budget also proposes to parallel proposed federal tax changes to allow couples with pension income to pay less income tax by splitting certain pension income for tax purposes.

Other measures in this section include proposed changes to the *Workplace Safety and Insurance Act*, such as an increase in benefits for about 155,000 injured workers. The government will also provide an additional $51 million over three years, starting in 2007-08, to enhance access to legal aid services for vulnerable Ontarians.

The government will invest more than $200 million over four years to enhance community services and supports for people with a developmental disability and their families.

New Ontario Child Benefit

Expanding opportunities for children and families is an important investment in Ontario's future. All children must be given the best possible start in life if they are to seize opportunities for success. Families must be given the support they deserve to secure their most basic needs and be equipped to participate in Ontario's economic prosperity.

The government recognizes the importance of investments to help children and families. The goals of these investments are clear — to provide more assistance to more children and help families make the transition from social assistance to employment.

The government is entering a transformative era in social policy, by fundamentally changing how benefits for children in low-income families are provided.

The current system is not meeting the needs of Ontario's children.

- Most income support for children is provided through the social assistance system and excludes the majority of low-income working families.

- Providing children's benefits through social assistance makes it more difficult for parents to leave the welfare system for employment.

- Social assistance benefits treat children differently as benefits vary widely by the age and birth order of the children.

This Budget proposes the new OCB, which constitutes a major reform in the way benefits are provided to all low-income families with children.

The OCB program would:

- help nearly 1.3 million children in low-income families annually — many more than the 196,000 children in families currently receiving social assistance and the 271,000 children in families currently receiving the Ontario Child Care Supplement for Working Families (OCCS)

- provide similar benefits to all children under age 18 in low-income families, whether their parents work or receive social assistance

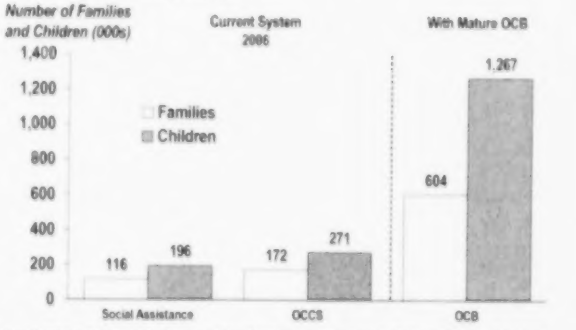
- help parents receiving social assistance make the transition to work because they would continue to receive children's benefits after beginning employment.

The new OCB program would provide an additional $2.1 billion in benefits cumulatively over its initial five years.

Key Features of the OCB

The OCB initiative would consolidate social assistance benefits for children and the OCCS into one benefit that would be paid to all low-income families with children. Unlike social assistance, which is means tested, the OCB would be income tested, meaning many more families would be eligible to receive it. The OCB would be delivered through the personal income tax system.

Number of Recipient Families with Children by Income Security Program — **Chart 3**



Note: Social assistance excludes Temporary Care Assistance and Assistance to Children with Severe Disabilities.
Source: Ontario Ministry of Finance

The OCB would assist all low-income families with children under age 18. This means that, when fully implemented, the OCB would benefit about 800,000 more Ontario children than the current OCCS and social assistance programs combined. (See Chart 3.)

Relationship to Federal Child Benefits

Since taking office in 2003, the government has flowed through all incremental increases to the NCBS, providing an additional $56 million in 2006-07 to families receiving social assistance. In this Budget, the government proposes to flow through all future incremental increases to the NCBS permanently.

Further, upon implementation of the OCB, neither the OCB nor social assistance benefits would be reduced by any portion of the NCBS.

Five-Year Phase-In

To deliver benefits earlier, the government proposes to issue an OCB down payment of up to $250 per child under age 18 in July 2007, providing an additional $190 million to nearly one million children in more than 460,000 families. This down payment would be made in addition to social assistance and OCCS payments. It would be reduced by 3.4 cents for every dollar of adjusted family net income over $20,000.

Beginning in July 2008, OCB payments would begin to flow monthly. Social assistance benefits would be restructured so that most child-related payments would be consolidated with the OCB. In July 2008, the maximum OCB annual benefit level would be $600 per child under age 18, providing an additional $230 million in 2008-09 to low-income families with children.

Improving Equity

When fully phased in, the OCB would improve the equity of the child benefits system in three important ways:

- Ontario Works recipients with children under age 13 would receive the same benefits as those with children aged 13 and older (currently children under 13 receive less)
- OCCS recipients would continue to receive the OCB until their child turns 18 (currently OCCS benefits cease when a child turns seven)
- all children in families with similar incomes would receive the same OCB benefit regardless of whether their parents are employed or receiving social assistance (currently, social assistance recipients receive more child benefits).

The maximum OCB payment level would increase annually through 2011. (See Table 1.) Once the OCB is fully implemented, families would receive annual OCB payments of up to $1,100 per child, providing nearly 1.3 million children with an additional $765 million in support annually.

Families with adjusted family net income of up to $20,000 a year would receive the full OCB amount. After July 1, 2008, OCB payments would be reduced by eight per cent of adjusted family net income over $20,000.

In July 2008, OCCS payments would also be consolidated with the OCB. If a family's OCCS entitlement is larger than their OCB payment, the family would still receive the extra OCCS benefit. This guarantees that all OCCS recipients would be at least as well off under the new system as they were before. Once the OCB is fully implemented in July 2011, the OCCS would be phased out over seven years.

Social assistance shelter allowances, Temporary Care Assistance and Assistance for Children with Severe Disabilities would not be affected by the OCB.

MAXIMUM ANNUAL ONTARIO CHILD BENEFIT PAYMENT — TABLE 1
($ PER CHILD PER BENEFIT YEAR[1])

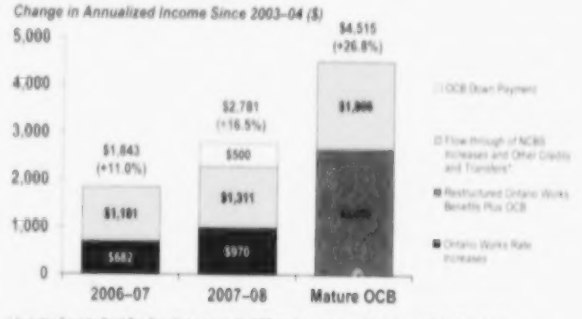
	2007	2008	2009	2010	2011
Benefit Level	250	600	805	900	1,100

[1] Benefit year is from July 1 to June 30.

OCB Example

When the new system reaches maturity, the total income of a single parent with two children under age 13 who is receiving Ontario Works benefits would be $4,515 (26.8 per cent) higher than it was in 2003–04. (See Chart 4.)

Supporting Families Receiving Social Assistance — Chart 4
Single Parent with Two Children Under Age 13
Change in Annualized Income Since 2003–04 ($)



* Includes Canada Child Tax Benefit base benefit, GST credit and Ontario Property and Sales Tax Credits.
Note: Assumes federal benefits are indexed at approximately two per cent annually.
Source: Ontario Ministry of Finance

Lowering the Welfare Wall

The new OCB would help lower the welfare wall by removing children's benefits from the social assistance system. This would:

- ensure families continue to receive children's benefits when parents leave social assistance for employment
- allow families receiving social assistance to keep a much larger portion of benefits for their children as their earnings increase. This is because the OCB would be reduced by only eight per cent of adjusted family net income over $20,000. By contrast, social assistance benefits are reduced by 50 cents for every dollar of earnings.

Uploading Child Benefits

Municipalities would also benefit from the OCB, as the Province would pay its entire cost, including administration. This would save municipalities $15 million annually in social assistance costs once the OCB is fully implemented in July 2011. Moreover, enhancements to the OCB in the future would not create new costs for municipalities.

Other Supports for Children and Youth

The government envisions an Ontario where children and youth have the best opportunity to succeed and reach their full potential. That is why it is introducing additional initiatives to support families with children, children with special needs and other vulnerable children.

Best Start

Best Start was designed by the Province, in partnership with the Government of Canada, as part of the Early Learning and Child Care Agreement, which the federal government has since terminated. The Province is committed to sustaining the progress made to date, including continuing to fund municipalities for almost 15,000 new licensed child care spaces already announced. The government would go further by enhancing current child care programs by $25 million in 2007–08, which would increase to $50 million annually starting in 2008–09. This would be in addition to the $63.5 million in annual funding announced in the 2006 Ontario Budget. The government has also introduced a new eligibility model for child care fee subsidies, based on adjusted family net income, which simplifies and standardizes eligibility for fee subsidies across the province.

Healthy Babies Healthy Children

The government proposes to expand the Healthy Babies Healthy Children program with an ongoing investment of over $5 million to support the needs of at-risk families with children. Building on Best Start, the expanded program would address the health and social needs of these families through early intervention and intensive follow-up so that their children arrive at school with the skills and abilities to succeed.

College of Early Childhood Educators

The Province is introducing legislation to establish a College of Early Childhood Educators to improve and maintain consistent standards of quality in the child care system. The college would establish professional standards of practice, qualifications and ongoing professional development for early childhood educators.

Family Literacy and Parenting Services

Family literacy and parenting services are free programs for parents, grandparents and caregivers of children from birth to six years old. These programs help prepare children for successful school entry by supporting the establishment of early positive connections to future schools and building a strong home-school partnership.

In 2007–08, the Province is committing an annual investment of $6 million, expanding services across Ontario.

Children With Special Needs

Children with special needs include those with autism, developmental delays, behavioural and emotional problems, and mental and physical disabilities. The government supports children with special needs

through a variety of programs including programs delivered by Children's Treatment Centres, children's mental health agencies and the Autism Intervention Program.

Children's Treatment Centres

Children's Treatment Centres are community-based organizations that provide about 40,000 children annually with such services as physiotherapy and speech and language therapy. The government's total annual funding to these centres will have increased by nearly $30 million between 2003–04 and 2007–08, including $10 million announced in the 2006 Ontario Budget to provide services to almost 5,000 children and youth across the province, and an additional $4 million starting in 2007–08.

Children's Mental Health

The Province is building on its previous investments in more than 250 child and youth mental health centres and 17 hospital-based outpatient programs by providing an additional $8 million in annual funding to address gaps in local service needs and reduce wait times. As of 2007–08, the government will have increased funding for these services by nearly $80 million since 2003–04, including enhancements announced in the 2004 Ontario Budget.

Autism

Breaking down the barriers that isolate children with autism from the world around them is an ongoing commitment of the government. The Province has increased funding to nearly $130 million in 2007–08 — nearly tripling the support for children with autism spectrum disorders (ASD) and their families since 2003–04.

The government's initiatives for children with ASD have included:

- increasing the pool of qualified autism professionals through the creation of an Ontario College Graduate Certificate Program in Autism and Behavioural Science
- providing $6 million to the Geneva Centre for Autism to support the unique needs of children with ASD; this funding has supported up to 1,600 resource teachers and home visitors
- providing $1 million to help Autism Ontario offer more supports to families of children and youth with ASD, including parent support networks, training and resource materials.

Since July 2005, children receiving services through the autism intervention program have continued to benefit from these services after reaching the age of six. Previously, children age six and older were ineligible for these services.

In 2007, the government is providing investments to more than double the number of children receiving autism intervention services since 2003. This will result in more than 1,100 children receiving these services.

At-Risk Youth

Ontario is committed to improving opportunities for young people, particularly those at risk of engaging in violent behaviour. Research shows that young people are more likely to make positive choices if they are given the right supports and opportunities in their communities.

In the 2006 Ontario Budget, the government announced significant investments in community programs to help at-risk youth make sound decisions and become healthy and productive adults, including the following:

- Putting more than $28 million over three years into the Youth Opportunities Strategy to expand community programs that help at-risk youth choose a better future; the strategy includes enhancing mentorship and youth leadership, as well as promoting job-readiness, employment and skills training programs. Currently, the government is expanding the strategy beyond Toronto to London, Ottawa, Thunder Bay, Windsor and Hamilton.

- Establishing the Youth Challenge Fund to support community-led programs in Toronto and offer young people positive alternatives to guns and gangs, such as sports and community activities. The government is providing up to $30 million over three years, which, with additional contributions by the private sector, would mean up to $45 million for at-risk youth.

Children's Aid Societies

From 2003–04 to 2007–08, the Province increased investments in child protection services by nearly $260 million, including an additional investment of $34 million in 2007–08. In 2006, legislation was approved to help more children in the child protection system grow up in stable, caring homes, and to make children's aid societies stronger and more accountable to the families and communities they serve. The legislation was part of the government's broad reforms to improve the lives of vulnerable children and strengthen Ontario's child protection system by expanding adoption options and improving safeguards for children and youth referred to a children's aid society.

The Province has also established an Accountability Office to strengthen accountability by including higher standards in more detailed annual agreements with children's aid societies and all other government-funded agencies. As well, the Accountability Office monitors whether children's aid societies meet legislated requirements for the care and protection of children, and ensures that corrective action is taken as needed. The Accountability Office also monitors the performance of children's aid societies through assessment and reporting.

Family Responsibility Office

The Family Responsibility Office helps families receive the court-ordered financial support to which they are legally entitled.

Since 2003–04, the government has invested almost $5 million to improve the enforcement and collection of child and spousal support and to enhance customer service. The government has also

launched a new website (www.goodparentspay.com) that identifies parents who fail to pay court-ordered support.

In addition, the government will propose legislation to improve the effectiveness of the enforcement and collection of child and spousal support.

Increased Support for Families Receiving Social Assistance

The government proposes to increase support for Ontario's most vulnerable families and individuals by raising social assistance rates by two per cent effective November 2007. By increasing Ontario Works and Ontario Disability Support Program benefits in 2005, 2006 and now this year, the government would be helping families receiving social assistance manage the increased cost of living. The proposed social assistance rate increase would provide an additional $83 million in benefits to more than 420,000 Ontario families with more than 196,000 children in 2007–08 on a full-year basis. It would also benefit families receiving Temporary Care Assistance and Assistance for Children with Severe Disabilities. Municipalities would not be required to contribute to the proposed rate increase until January 2008.

Building on Previous Initiatives

The proposed OCB and social assistance rate increase would build on initiatives that the government has introduced since 2003–04 to support low-income families and individuals, including the following:

- Increasing social assistance rates by three per cent in 2005 and two per cent in 2006. Winter-clothing and back-to-school allowances for social assistance recipients were also raised by two per cent in 2006. Combined, these increases provide over $137 million more to social assistance recipients in 2006–07.

- Permanently flowing through the July 2004, 2005 and 2006 increases to the NCBS. This measure provided an additional $56 million to about 116,000 families that received social assistance in 2006–07.

The government has also worked to ensure that social assistance has not created obstacles for Ontario's most vulnerable families and individuals to obtain jobs and fully share in the province's prosperity. The Ontario Government's improvements since 2003–04 to help social assistance recipients make the transition to jobs include the following:

- Introducing a straightforward exemption rate of 50 per cent on all earnings. This means that only half a recipient's earnings from employment is deducted from his or her monthly social assistance cheque. Previously, social assistance payments were reduced by at least 75 per cent of recipients' earnings above a small exempted amount, creating a significant barrier to employment.

- Extending health benefits for recipients leaving Ontario Works for employment for six months (one year in exceptional cases). Recipients leaving the Ontario Disability Support Program for

employment receive health benefits indefinitely or until employer health benefits become available.

Additional Support for Vulnerable Working Ontarians

The government believes it has a responsibility to help low-income workers obtain better jobs and achieve a higher quality of life. The government has therefore invested in a variety of programs to help low-income workers move ahead. These include investing nearly $1 billion annually for training and employment, working with the federal government on the proposed Working Income Tax Benefit (WITB), and increasing the minimum wage for four consecutive years since 2003.

Flowing Through the Working Income Tax Benefit

The proposed federal WITB would increase the incomes of low-income working Ontarians and encourage them to increase their earnings.

Ontario is working with the federal government to ensure that the proposed federal WITB realizes its objective of supporting vulnerable individuals in Ontario and the rest of Canada. As Ontario provides benefits to vulnerable people through a variety of programs, it is critical that the proposed federal WITB be properly integrated with existing provincial and territorial tax and transfer systems. Once the WITB is implemented, the Ontario Government would help low-income working families and individuals by flowing the full amount of the benefit through to Ontarians receiving social assistance.

Minimum Wage

The government recognizes that periodic increases to the minimum wage are an important part of helping those with low incomes. The government has assisted low-income working families and individuals by increasing the minimum wage every year since taking office in 2003. The minimum wage has risen by 17 per cent, from $6.85 per hour in 2003 to its current rate of $8.00. These increases followed a nine-year period, from 1995 through 2003, during which the minimum wage in Ontario was frozen. Ontario now has one of the highest minimum-wage rates in Canada.

The government proposes to increase the hourly minimum wage to $10.25 by 2010, with three annual increases of 75 cents starting on March 31, 2008.

Employment Ontario

The minimum wage is one way to support low-income workers. Other measures such as training programs and employment incentives can also be targeted effectively to help them.

Training and other employment support programs provide vulnerable Ontarians with the skills and experience they need to take advantage of economic opportunity. Through its new nearly $1 billion annual training program, Employment Ontario, the government is providing these critical labour-market

services to the unemployed, the underemployed, new Canadians, low-income workers and social assistance recipients. For more details, see Section F: *Expanding Opportunities for Economic Growth*.

Affordable Housing

The government recognizes that many low-income Ontarians need affordable housing. That is why it proposes to create more housing supports, including new housing units and additional funding for those eligible for housing allowances.

New Housing Initiatives

With the $392 million federal Affordable Housing Trust and Off-Reserve Aboriginal Housing Trust, the Ontario Government proposes to launch three new housing initiatives to assist low-income families in Ontario. The first will immediately provide $127 million to municipalities for new affordable housing or to rehabilitate existing housing.

To help low-income working families with children pay rent, the government's second new initiative would create a new provincial housing allowance program that would provide up to $100 per month, for a maximum of five years, to eligible families.

This five-year, $185 million program would begin in January 2008 and create more than 27,000 new housing allowances for low-income working families. This would bring the total number of new housing allowances to 35,000.

Full details, including information about the application process, will be provided by the Ontario Minister of Municipal Affairs and Housing later this spring.

The third new housing initiative would provide $80 million in funding for up to 1,100 off-reserve housing units for aboriginal families that the government would allocate in partnership with aboriginal communities. This would enable Aboriginal Peoples to participate in the determination of how affordable housing is delivered in their communities, building a sustainable future and better quality of life.

Ongoing Housing Programs

The Ontario Government continues to work with the federal and municipal governments to provide adequate housing for low-income families under the Affordable Housing Program. The program will provide 15,000 new affordable housing units and 5,000 housing allowances by 2011–12. To date, over 7,400 housing units have been approved and the Province has committed to providing nearly 4,500 new housing allowances. The Province also supports the delivery of up to 6,600 affordable rent-geared-to-income rental allowances through the Strong Communities Rent Supplement program.

In addition, the government is giving tenants more protection while keeping Ontario's rental housing market robust through the *Residential Tenancies Act, 2006*, which came into effect on January 31, 2007.

Homelessness Prevention

To help low-income tenants avoid losing their homes, the government has invested nearly $19 million to support municipal rent banks — short-term funding mechanisms through which low-income tenants may apply for assistance to address rent arrears — across Ontario. This is an important part of the government's homelessness strategy, and has prevented almost 8,000 evictions.

SUPPORTS FOR SENIORS

Locked-in Accounts

The government is proposing to introduce a new life income fund (LIF) that would increase income for seniors in retirement and permit up to 25 per cent of the funds to be unlocked. The new LIF, and other modifications to the rules governing locked-in accounts, would give seniors who hold locked-in retirement savings transferred from employment pension plans increased flexibility in managing their retirement income.

The new LIF would replace all existing LIFs and locked-in retirement income funds (LRIFs). This would give seniors more flexibility by eliminating mandatory annuity purchase requirements and introducing:

- the right to an optional one-time unlocking of up to 25 per cent of locked-in funds no earlier than the early-retirement date under the pension plan from which the money was transferred (in most cases, this is age 55)
- an amended annual payment schedule that would increase retirement income and permit withdrawal of the entire remaining account balance when the LIF holder reaches age 90
- the opportunity to withdraw additional income based on investment returns in the previous year.

Additional changes would allow direct transfers of unlocked small amounts to non-locked-in accounts and unlocking for non-residents of Canada. The changes would also introduce consistent rules for the waiver of spousal entitlements to locked-in funds. Consultations will be initiated on the process for implementing the new LIF and other changes to the rules for locked-in accounts. It is expected that implementation of these proposals would begin as early as January 2008.

Ontario Property and Sales Tax Credits for Seniors

Ontario Property and Sales Tax Credits for seniors were established in 1992 to assist seniors with modest incomes. These refundable credits remained unchanged until 2004, when the government enriched them by increasing the underlying property tax credit amount for seniors by 25 per cent, from $500 to $625. The government also increased the income threshold at which senior couples' benefits begin to be reduced to $22,250 for 2005 and $23,090 for 2006.

The 2007 minimum level of income guaranteed by the Ontario and federal governments for eligible senior couples is rising because of increases to Old Age Security (OAS) and Guaranteed Income Supplement (GIS) payments. This year, the government is proposing to increase the 2007 income threshold for senior couples so that those receiving the guaranteed minimum level of income from governments would continue to receive the full benefit of the credits. The new threshold would be determined when the federal government finalizes OAS and GIS amounts for 2007.

Pension Income Splitting

Beginning with the 2007 taxation year, couples would be allowed to split certain types of pension income for Ontario income tax purposes, subject to relevant federal proposals receiving Royal Assent. This would recognize the special challenges of planning and managing retirement income, and assist pensioners by providing a significant benefit to many couples with pensions.

Allowing individuals to split their pension income with a spouse or common-law partner for tax purposes would provide Ontario income tax savings of about $170 million to Ontario couples with eligible pension income in 2007.

Other Supports for Vulnerable Ontarians

Improvements to Workplace Safety and Insurance

The health and safety of Ontario workers is a priority. The Workplace Safety and Insurance Board (WSIB), an arm's-length agency of the government, is responsible for compensating injured workers, facilitating their return to work, and promoting health and safety. In this Budget, the government is proposing a number of important improvements in benefits for injured workers in the *Workplace Safety and Insurance Act*. These enhanced benefits would be paid out of the Workplace Safety and Insurance Fund.

- Many injured workers receive benefits that are partially indexed to inflation. The legislative changes, if enacted, would permit the WSIB to enhance the benefits of about 155,000 injured workers by 2.5 per cent on July 1, 2007 and on January 1 in each of 2008 and 2009.

- The government also proposes to give the WSIB greater flexibility to review and determine injured workers' loss of earnings benefits after the benefits are locked in at 72 months. Currently, if a worker's condition deteriorates significantly, the legislation does not permit a review of the worker's situation more than 72 months after the date of injury. This change would affect about 750 individuals annually.

- Another proposed amendment would require that earnings be based on what a worker would likely earn from suitable as well as available employment, rather than the current more restrictive standard.

- The government proposes to raise the threshold below which a lump-sum instead of a monthly retirement benefit payment is made, from $1,166.41 to $3,000. A threshold of $1,145.63 was established in the legislation in 1997 and has been partially adjusted to inflation to the current level of $1,166.41.

A 2004 independent audit of the WSIB by Grant Thornton LLP recommended an increase in the size of the board of directors to enhance its effectiveness. Acting on this recommendation, the government proposes to add up to four more directors to the board.

If approved by the legislature, the implementation date for the amendments proposed above, with the exception of the increase in board size, is July 1, 2007. The amendment relating to the board of directors would take effect on the date it is proclaimed.

The Office of the Worker Adviser (OWA), an independent agency of the government, helps non-unionized injured workers deal with the many complexities and levels of appeal in the workers' compensation system. The government is increasing funding to OWA by $1.4 million in 2007–08 to improve and expand its services. This amount would be fully recoverable from the WSIB.

Employment Standards Program

The government is committed to protecting the legislated employment rights of Ontario's most vulnerable workers by dealing with the backlog of claims they have filed under the *Employment Standards Act*. This Budget provides an additional $3.6 million annually to address the backlog of uninvestigated complaints. The result will be improved frontline service and shorter claims-resolution times.

Legal Aid Ontario

A strong, accessible legal system is a cornerstone of Ontario's justice system. To help ensure that all Ontarians have access to the province's legal system, the government would provide an additional $51 million over three years, starting in 2007–08, to Legal Aid Ontario (LAO), the independent agency that administers the Province's legal aid program. The agency issues certificates to clients who meet financial eligibility requirements, enabling them to retain private counsel to represent them in court.

The new funding would:

- Enhance vulnerable Ontarians' access to family law services. Without such funding, women, including victims of domestic violence, may have to go through the court system without a lawyer in complex proceedings involving child support, custody and access cases. Additional funding would also ensure that more people could receive legal assistance.

- Increase the hourly legal aid tariff rate (the hourly rate paid to lawyers who do legal aid work), helping to ensure that more lawyers are available to accept legal aid cases. Rates were last

increased by five per cent in 2003. The legal aid tariff rate would increase by five per cent to about $94.50 per hour.

- Ensure that LAO has the funds to assist low-income Ontarians, including families and children, with access to frontline family law services.

Developmental Services

The government is enhancing services and supports for people with developmental disabilities and their families in communities across Ontario. The developmental services program helps adults with developmental disabilities live, work and participate in a wide range of activities within their communities.

The government will invest more than $200 million in additional operating funding over four years to strengthen capacity in the developmental services sector. This funding will help agencies sustain and enhance residential and community services, and increase supports to families caring for family members with a developmental disability at home. In addition, this Budget is announcing $7 million in new capital funding for developmental services community agencies. With this new funding, the government will have invested more than $500 million in developmental services since 2003.

Investments to Improve Social Infrastructure

This Budget is announcing $48 million in 2006-07 to support social and community infrastructure improvements, increasing the capacity of the social sector to provide quality services. The funding will support hospices, centres that assist new Canadians, community recreation centres, and social service agencies, including developmental services facilities. See Section G: *Investing in Ontario's Infrastructure.*

Improving the Social Infrastructure

- $10 million for hospices
- $5 million for community citizenship centres
- $15 million for community recreation centres
- $18 million for vulnerable populations, including developmental services.

Social Innovation Generation

A prosperous economy and society depends on great ideas being turned into great outcomes in both the private and social sectors of the economy. The government is investing $6 million over four years to support the creation of Social Innovation Generation based at MaRS (SIG@MaRS). SIG@MaRS will allow people with ideas to improve or offer community services to access mentors and programs that will help turn their ideas into positive outcomes for society. SIG@MaRS is part of a larger collaboration involving MaRS, the J.W. McConnell Family Foundation and the University of Waterloo.

SECTION B: A FAIR PROPERTY TAX SYSTEM

OVERVIEW

Ontario residential and business property owners need property taxes that are fair and predictable. Homeowners need to know they will not experience sudden or unmanageable tax changes from year to year and business property owners need a system that treats them fairly and does not hamper competitiveness.

The McGuinty government is committed to an improved property tax system that is fair, transparent, predictable and sustainable.

This Budget proposes a number of measures to enhance the fairness and predictability of the current property tax system, including:

- cutting high Business Education Tax (BET) rates
- changes to the assessment system to introduce a four-year reassessment cycle and a mandatory phase-in of assessment increases
- improvements to the fairness and effectiveness of the assessment appeal system.

This Budget also proposes to end Greater Toronto Area (GTA) pooling.

INTRODUCTION

Property tax contributes to the funding of key programs and services for residents and businesses across Ontario. It is a primary source of revenue for municipalities and school boards.

There are two components to property tax:

- a municipal portion (based on tax rates set by municipalities)
- a provincial education portion (based on tax rates set by the Province).

Property taxes raise more than $19 billion per year in Ontario. The municipal portion of the tax raises approximately $13 billion and the education portion approximately $6 billion.

Municipalities are responsible for the administration of the system, including the establishment of local tax policies (within a Provincial framework), billing and collection.

The Municipal Property Assessment Corporation (MPAC) is responsible for the administration of the property assessment system (within a Provincial framework), including the establishment of assessed values for all properties in the province. It is a not-for-profit corporation that delivers assessment services on behalf of all municipalities in Ontario.

The government has heard concerns from both residential and business property owners about different aspects of the property tax system.

The key concerns expressed by business property owners relate to fairness and competitiveness. In particular, businesses are concerned about the high level of taxes as well as the wide variation in BET rates across the province.

Residential property owners are concerned about stability and predictability. In particular, residents want to know that they will not experience sudden or unmanageable tax changes from year to year. Residents have also expressed concern about fairness in the assessment appeal process.

Cutting Business Education Property Taxes

This Budget announces a plan to significantly reduce the wide variation in BET rates. Under the government's plan, the Province will implement a $540 million cut to high BET rates over the next seven years. This will reduce BET rates in 321 municipalities across the province and benefit more than 500,000 businesses of all sizes.

This initiative is a key element in the government's overall strategy to enhance Ontario's investment climate and builds on the proposal in this Budget to accelerate the elimination of the capital tax to July 1, 2010. The BET reductions will improve the competitive position of Ontario businesses, create new jobs and strengthen the provincial economy.

Business education property taxes currently contribute $3.5 billion in funding to support elementary and secondary education in Ontario. The Province's direct transfers to school boards are being increased to ensure that BET cuts will not affect planned increases in overall education funding. See Section C: *Expanding Opportunities for Students*, for further details on education funding.

The Economic Benefits of Reducing High BET Rates

Education taxes typically make up about 50 per cent of total property taxes levied on business properties.

When the Province first assumed responsibility for setting education tax rates in 1998, several hundred different BET rates were established across the province. These rates were set for commercial and industrial property classes in each upper- and single-tier municipality, based on existing 1997 education tax levels.

As a result, there is currently a wide range of BET rates that reflect historical assessment and tax inequities. In fact, the highest BET rates in the province are currently four times the provincial average BET rate of 1.85 per cent.

Business representatives, including the Ontario Chamber of Commerce and Canadian Federation of Independent Business, have criticized high BET rates as being unfair and as being a barrier to economic competitiveness. The variation in rates distorts efficient business location decisions — placing many regions of the province at a disadvantage and harming the provincial economy overall.

> "The taxation of business properties in Ontario, with rare exceptions, is grossly unfair... Within the business property tax envelope, education property taxes are by far the greater offender...."
>
> Canadian Federation of Independent Business, October 2006

Cutting high BET rates will result in economic benefits to Ontario in terms of increased jobs, investment, productivity and output. The economic benefits of this initiative will be widespread. In fact, businesses in northern Ontario will be the largest beneficiaries of the BET cuts, with an average percentage decrease of 32 per cent.

Details of Proposed $540 Million BET Cut

Over the next seven years, the government will cut Business Education Taxes by $540 million — lowering high BET rates to a target maximum rate of 1.60 per cent. This new maximum rate is well below the current average BET rate of 1.85 per cent.

BET rates that are currently below 1.60 per cent will not be increased under this plan.

Starting in 2008, the government will introduce an initial annual ceiling rate of 2.50 per cent for commercial properties and 3.00 per cent for industrial properties. Each year, these annual ceiling rates will be reduced until they reach the target maximum BET rate of 1.60 per cent on January 1, 2014.

All businesses with BET rates above the 1.60 per cent target maximum rate will benefit from tax rate reductions each year — even those that are below the annual ceiling

BET Annual Ceiling Rates — **Table 2**

Year	Annual Commercial Ceiling Rate (%)	Annual Industrial Ceiling Rate (%)	Estimated Business Tax Cut ($ Millions)
2008	2.50	3.00	15
2009	2.35	2.75	35
2010	2.20	2.50	65
2011	2.05	2.25	105
2012	1.90	2.00	180
2013	1.75	1.75	350
2014	1.60	1.60	540

Note: BET rates may need to be recalculated in 2009 and future years to adjust for the impact of reassessment-related changes. Annual ceiling and target maximum rates may also need to be managed to account for these changes.

rates. Each year, BET rates that are below the annual ceiling rate will be reduced by two per cent of the amount by which they exceed 1.60 per cent.

In addition, all new construction initiated after March 22, 2007, will immediately be subject to the 1.60 per cent maximum BET rate. This measure will maximize the economic benefits of the initiative in terms of stimulating new investment. It will also serve to immediately establish a more level playing field for businesses facing decisions about where to build new manufacturing facilities or other business complexes.

Province-Wide Benefits of BET Cuts

Table 3 provides the projected BET cuts for commercial and industrial properties in each region of the province and illustrates that the benefits will be broadly distributed. In fact, more than 50 per cent of the total $540 million reduction will benefit businesses outside the Greater Toronto Area (GTA).

The projected cuts are shown for 2014 when the planned BET cuts will be fully implemented.

Business Education Property Tax Cuts — **Table 3**

Region	Municipality (counts reflect lower- and single-tier municipalities)	Property Class	Fully Implemented: Projected 2014 Tax Cut ($)	Fully Implemented: Projected 2014 Tax Cut (%)
NORTH:				
	Thunder Bay	Industrial	5,499,000	55
		Commercial	8,491,000	38
	Sault Ste. Marie	Industrial	2,303,000	46
		Commercial	2,451,000	23
	Timmins	Industrial	2,104,000	46
		Commercial	738,000	15
	Greater Sudbury	Industrial	3,930,000	43
		Commercial	4,402,000	19
	North Bay	Industrial	177,000	14
		Commercial	2,967,000	30
	North Region	**Industrial**	**6,571,000**	**42**
	80 Other Benefiting Municipalities	**Commercial**	**4,882,000**	**25**
EAST:				
	Cornwall	Industrial	1,035,000	46
		Commercial	3,329,000	34
	Kingston	Industrial	1,228,000	40
		Commercial	4,610,000	19
	Belleville	Industrial	700,000	33
		Commercial	3,359,000	25
	Brockville	Industrial	384,000	30
		Commercial	1,565,000	29
	Ottawa	Industrial	7,884,000	26
		Commercial	25,753,000	12
	East Region	**Industrial**	**6,427,000**	**43**
	63 Other Benefiting Municipalities	**Commercial**	**4,894,000**	**13**

BUSINESS EDUCATION PROPERTY TAX CUTS — **TABLE 3**

Region	Municipality (counts reflect lower- and single-tier municipalities)	Property Class	Fully Implemented	
			Projected 2014 Tax Cut ($)	Projected 2014 Tax Cut (%)
CENTRAL:				
	Guelph	Industrial	4,995,000	39
		Commercial	3,417,000	17
	Waterloo Region	Industrial	16,371,000	39
		Commercial	19,586,000	22
	Toronto	Industrial	26,428,000	22
		Commercial	205,069,000	19
	Hamilton	Industrial	1,690,000	10
		Commercial	6,978,000	10
	Peel Region	Industrial	12,096,000	10
	Central Region	**Industrial**	**38,649,000**	**18**
	86 Other Benefiting Municipalities	**Commercial**	**8,345,000**	**17**
SOUTHWEST:				
	Oxford County	Industrial	5,036,000	45
		Commercial	3,002,000	22
	Lambton County	Industrial	4,432,000	45
		Commercial	2,877,000	16
	Windsor	Industrial	9,719,000	45
		Commercial	4,740,000	11
	London	Industrial	5,657,000	44
		Commercial	28,012,000	34
	Essex County	Industrial	5,445,000	36
	Southwest Region	**Industrial**	**10,891,000**	**41**
	41 Other Benefiting Municipalities	**Commercial**	**7,570,000**	**17**
OTHER RURAL MUNICIPALITIES:				
	Northumberland County	Industrial	1,897,000	52
		Commercial	1,647,000	19
	Elgin County	Industrial	1,722,000	50
	Lennox and Addington County	Industrial	1,254,000	49
		Commercial	492,000	17
	Stormont, Dundas and Glengarry County	Industrial	765,000	45
		Commercial	1,023,000	21
	Renfrew County	Industrial	967,000	45
		Commercial	694,000	11
	Chatham–Kent	Industrial	2,475,000	44
		Commercial	2,400,000	18
	Grey County	Industrial	1,158,000	40
		Commercial	1,528,000	14
	Norfolk	Industrial	642,000	39
		Commercial	975,000	17

BUSINESS EDUCATION PROPERTY TAX CUTS — **TABLE 3**

Region	Municipality (counts reflect lower- and single-tier municipalities)	Property Class	Fully Implemented: Projected 2014 Tax Cut ($)	Fully Implemented: Projected 2014 Tax Cut (%)
OTHER RURAL MUNICIPALITIES: (cont'd)				
	Haldimand	Industrial	1,613,000	38
		Commercial	384,000	12
	Simcoe County	Industrial	3,996,000	35
	Rural Municipalities	**Industrial**	**31,087,000**	**39**
	173 Other Benefiting Municipalities	**Commercial**	**13,143,000**	**16**

Note: Projections are based on 2007 BET rates and 2005 current value assessments. These rates may need to be adjusted to account for the impacts of reassessment-related changes. Therefore, once the initiative is fully implemented, actual cuts may vary somewhat from these projections. Rural municipalities are also included in the appropriate regional section of the table. For example, the Counties of Oxford, Lambton and Essex appear as part of both the Southwest region and the Rural summaries.

ENDING GTA POOLING

The government is announcing a plan to phase out GTA pooling over seven years beginning in 2007.

Greater Toronto Area pooling was established under the previous government in 1998 to share social assistance and social housing costs across the GTA. The program results in a transfer of approximately $200 million in assistance, primarily to the City of Toronto. However, this transfer places an additional burden on the municipal property tax bases of contributing municipalities, including York Region, Peel Region and Halton Region.

For 2007, GTA pooling contributions will be rolled back to 2004 levels. Each subsequent year, costs will be reduced by one-sixth of the 2004 levels, until the program is fully eliminated in 2013.

The government will also make provisions to ensure continued financial support for those municipalities currently receiving assistance through GTA pooling. For example, any increases in the City of Toronto's social program costs resulting from the elimination of GTA pooling will be eligible for provincial assistance through the Ontario Municipal Partnership Fund.

Therefore, as GTA pooling is phased out, the Province will take responsibility for social assistance and social housing costs currently funded under the program. This will eliminate a $200 million burden from the municipal property tax bases of contributing GTA municipalities while ensuring continued financial assistance for recipient municipalities.

Fair and Predictable Property Taxes

Property tax is based on the current market value of properties. This system of valuation is referred to as current value assessment (CVA). Assessments based on market values are used widely across North America as the basis for property taxation. Assessments based on current value provide clarity and transparency and establish an equitable basis for distributing property taxes among property owners.

When the CVA system was introduced in Ontario in 1998, annual reassessments were planned to keep values up to date to ensure that properties of equal value in the same community pay equal taxes. However, annual reassessments can come at the cost of predictability and stability for many taxpayers in an active real estate market when property values change rapidly and unpredictably from one year to the next. In recent years, there have been rapid changes in property values, which have led to concerns about volatile property tax changes for many homeowners. The government understands that the lack of certainty surrounding reassessment is a source of worry for Ontario families.

There are a variety of tax policy mechanisms available to municipalities to help make assessment changes manageable for property owners. For example:

- municipalities can reduce their tax rates to offset the average impact of reassessment
- the government has provided municipalities with the flexibility to avoid reassessment-related tax shifts between property classes, easing the property tax burden on residential taxpayers
- municipalities are required to offer relief from reassessment-related tax increases to low-income senior and disabled homeowners.

In addition, the Province provides property tax relief for low- and moderate-income individuals and families through the refundable Ontario Property and Sales Tax Credits. These credits are delivered annually through the personal income tax system. In 2007, this program is expected to provide an estimated $740 million in property tax relief to Ontarians who own or rent their principal residences. This relief includes the impact of the enhancement to the Ontario Property and Sales Tax Credits for senior couples proposed in this Budget. In 2007, eligible seniors would benefit from an estimated $97 million in property tax relief as a result of improvements to these credits since 2003. See Section A: *Expanding Opportunities for Children and Families* for more information.

The government proposes to introduce three important changes to the assessment system to enhance the fairness and predictability of assessments for property owners while continuing to revalue properties on a regular basis and enabling municipalities to continue relying upon a stable source of revenue to fund important public services. These proposed changes are:

- a four-year reassessment cycle
- a mandatory phase-in of assessment increases
- enhancements to the fairness and effectiveness of the assessment appeal system.

The implementation details of these proposed measures, as well as related programs and policies, will be the subject of consultation with municipalities, the Municipal Property Assessment Corporation (MPAC), and the Assessment Review Board (ARB).

Timing of Reassessments — A Four-Year Cycle

The next reassessment is currently scheduled to take place for the 2009 taxation year, based on property values as of January 1, 2008.

For the future, the government is proposing that subsequent reassessments would be conducted every four years, coupled with the implementation of a mandatory phase-in program.

The timing of the four-year reassessment cycle would operate as follows:

A four-year cycle of reassessments, together with the proposed mandatory phase-in program, would:

- provide stability and predictability to taxpayers
- help maintain equity between properties (updating assessments with sufficient frequency so that similar properties with similar values pay similar taxes)
- facilitate accurate, efficient and cost-effective administration of the assessment system.

- Upon the next reassessment for the 2009 taxation year, property assessments will be updated using a valuation date of January 1, 2008. This valuation date would apply for 2009, 2010, 2011 and 2012.

- The cycle would continue accordingly every four years.

Mandatory Phase-in of Residential Assessment Increases

To provide an additional level of property tax stability and predictability for Ontario homeowners, the government proposes to introduce a mandatory phase-in of future residential assessment increases over four years.

The proposed four-year phase-in program would be implemented province-wide in 2009, following the next reassessment. This approach would complement the proposed introduction of a four-year assessment cycle.

While assessment increases do not necessarily lead to tax increases, the proposed phase-in would provide homeowners with greater certainty by introducing increases gradually over a four-year period. For example, a 20 per cent assessment increase would be phased in gradually in increments of five per cent a year over four years.

Even under a mandatory assessment phase-in, municipalities could continue to lower their tax rates to offset average assessment increases, so that, on average, homeowners would not see an increase in their property tax bills as a result of reassessment.

The phase-in program would apply to residential, farm and managed forest properties. The program would not apply to assessment decreases. This avoids the possibility of a homeowner being taxed on an assessment greater than the actual value of their property.

The government intends to consult with municipalities and MPAC as to whether the proposed mandatory phase-in program should be expanded to other property classes, such as commercial, industrial or multi-residential.

Assessment Appeal System

The government has heard concerns from property owners and municipalities about the structure of the assessment appeal system.

Currently, property owners who disagree with the accuracy of the assessment or tax classification that MPAC has established for their property have two options: they can ask MPAC to reconsider their assessment through an informal process known as the "request for reconsideration" or they can file an appeal with the ARB.

The deadline to submit requests for reconsideration to MPAC is December 31 of the taxation year. The deadline to submit appeals to the ARB is March 31 of the taxation year (nine months earlier than the reconsideration deadline). The Municipal Property Assessment Corporation is not obligated to respond to reconsideration requests prior to the ARB's appeal deadline, leading many people to file protective appeals with the ARB that are held in abeyance pending a response from MPAC on the reconsideration. The current appeal process often leads to confusion, duplication of effort, and inefficient use of resources.

Another concern about the appeal process relates to the flow of information between MPAC and property owners. There are no clear or consistent rules in place governing the sharing of information upon requests for reconsideration or appeals. Due to this lack of clarity, the various participants in the appeal process do not know what information they should be requesting from, or disclosing to, the other parties. This exacerbates the confusion and frustration that many people experience when challenging their assessments.

In examining these concerns, the government has sought input from various stakeholders, researched the appeal processes in other jurisdictions, and carefully considered the advice about the appeal system expressed by Ontario's Ombudsman in a report dated March 28, 2006.

The government is proposing to introduce the following measures to improve the fairness and effectiveness of the assessment appeal system:

- convert the optional request for reconsideration program into the mandatory first stage of the assessment appeal process
- change the deadline for filing ARB appeals so that it follows the completion of the reconsideration process
- establish standard information disclosure requirements at both the reconsideration and appeal stages.

Establishing a two-stage appeal process with sequential filing deadlines and standardized information disclosure protocols should:

- simplify the appeal process as only one avenue of review would be pursued at any time
- ensure that the reconsideration process is used effectively as a venue for the exchange of information
- reduce the number of appeals by resolving factual issues through the sharing of information at the reconsideration stage
- provide parties with access to consistent information within consistent timelines.

The government proposes to implement these measures to dovetail with the timing of the next reassessment for the 2009 taxation year.

The government intends to consult with municipalities, the ARB and MPAC regarding the implementation of the measures outlined above, as well as other improvements to enhance flexibility and transparency in the property tax system.

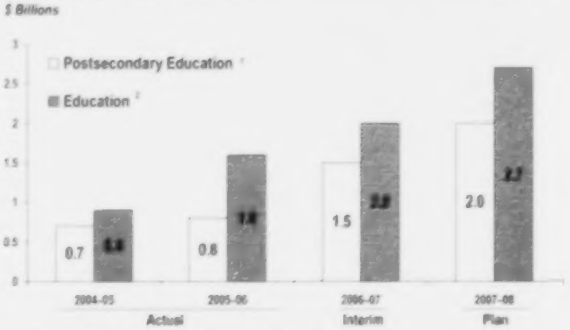
SECTION C: EXPANDING OPPORTUNITIES FOR STUDENTS

OVERVIEW

To compete effectively in the global marketplace, Ontarians must be among the best-educated, most highly skilled, productive and innovative people in the world. The McGuinty government is committed to expanding opportunities for all students — reaching every student from the early grades through to graduate school.

Since taking office, the government has made significant investments to help ensure that children in the all-important early grades can read, write and do math; that teenagers stay in school and are provided with the resources to graduate; and that postsecondary students have improved access to quality education.

Investments Since 2003–04 **Chart 5**



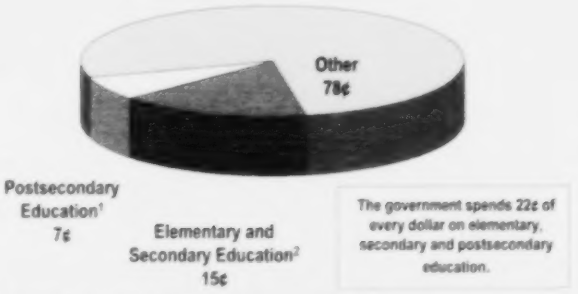
[1] Includes Ontario Ministry of Training, Colleges and Universities, and Colleges.
[2] Includes Ontario Ministry of Education and School Boards, and excludes Teachers' Pension Plan and education property tax revenue.

To build on the government's progress to date, this Budget is increasing Grants for Student Needs funding (for kindergarten to Grade 12) by $781 million in the 2007–08 school year to a total of $18.3 billion — up more than 17 per cent from 2003–04.

Under the Reaching Higher plan, the Province is investing a cumulative $6.2 billion in the postsecondary education sector by 2009–10. In this Budget, the government is announcing an additional $390 million for postsecondary education to help with infrastructure improvements and rising enrolment.

When the McGuinty government came to office in 2003, primary school students were in overcrowded classrooms; only 54 per cent of Grade 3 and Grade 6 students met the provincial standards in reading and math; just 68 per cent of high school students were graduating; school buildings were in need of repair; and colleges, universities and apprenticeship programs were suffering from long-term neglect.

2007–08 Program Expense **Chart 6**



[1] Includes Ontario Ministry of Training, Colleges and Universities, and Colleges net expense.
[2] Includes Ontario Ministry of Education and School Boards net expense. Excludes Teachers' Pension Plan and education property tax revenue.

The government's plan is working:

- Test scores are up — almost two-thirds of Grade 3 and Grade 6 students now meet or exceed the provincial standards in reading, writing and math.
- Class sizes are down — 65 per cent of primary classes have 20 students or fewer and 93 per cent have 23 students or fewer.
- The high school graduation rate has risen to 73 per cent.
- There is labour peace and stability in our schools.
- Under the Good Places to Learn program, almost 6,800 school building improvement projects have been completed or are underway.

The Reaching Higher plan for postsecondary education is making positive change by improving quality, access and accountability. Accomplishments under Reaching Higher so far include the following:

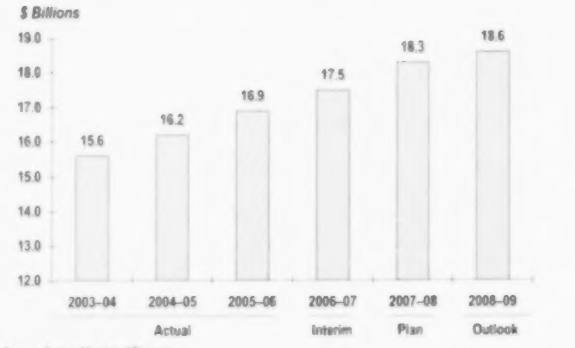
- There are 86,000 more full-time students enrolled in postsecondary education.
- 145,000 students are benefiting in 2006–07 from enhancements to student aid.
- Graduate school spaces will increase by 12,000 by 2007–08.
- After two years of tuition freezes, tuition increases have been capped at an average of five per cent, or $100 for 90 per cent of college students and $200 for 70 per cent of university students.

Investments to Support Higher Student Achievement

The government understands that in today's globally competitive economy, high-quality public education is essential to Ontario's prosperity. Since taking office in 2003, the government has been dedicated to building a strong, stable and vibrant publicly funded education system that gives Ontario's students the opportunity to develop into the best-educated, most highly skilled workforce.

Funded through a combination of education property tax revenues and direct transfers

Grants for Student Needs (School Year) **Chart 7**



Source: Ontario Ministry of Finance

from the Province, annual funding to school boards for elementary and secondary education is determined through the Grants for Student Needs (GSN) funding formula.

Before 2003, funding for public education was limited, forcing school boards to make some very difficult choices among competing priorities. The government established a plan for student success that provided predictable multi-year funding, ensuring that school boards have sufficient resources to lower class sizes, hire more teachers, meet rising operating costs, maintain school facilities, provide up-to-date textbooks and reach out to more at-risk students. The government's plan also established a working partnership with public education providers by bringing labour stability to public education in the province. The number of student days lost to labour unrest has decreased 95 per cent during the tenure of the government.

GRANTS FOR STUDENT NEEDS **TABLE 4**
FUNDING PER STUDENT

School Year	Funding per Student
2003–04	$7,920
2004–05	$8,249
2005–06	$8,623
2006–07	$8,970
2007–08	$9,432[1]
2008–09	$9,669[1]

[1] Based on projected student enrolment

In the 2007–08 school year, the government will continue making substantial investments in education by providing $18.3 billion, an increase of $781 million from last year, or more than 17 per cent, compared to 2003–04. By 2008–09, GSN funding will rise to $18.6 billion, an increase of $3.0 billion in new funding compared to 2003–04 levels. Average per-student funding will increase to an estimated $9,669 by 2008–09, up $1,749 or 22 per cent from 2003–04.

Investments for Higher Student Achievement

- GSN funding to school boards in the 2007–08 school year will increase by $2.7 billion, from 2003–04, to $18.3 billion
- Average per-student funding will increase by $1,749, or 22 per cent by 2008–09, from $7,920 in 2003–04 to $9,669 in 2008–09
- French-language boards will receive more than $1 billion in 2007–08, an increase of $73.5 million or 7.2 per cent from 2006–07

These planned increases in GSN funding will not be affected by the government's plan to cut high Business Education Tax (BET) rates. The Province's direct transfers to school boards are being increased to offset the decrease in BET revenues.

FOUNDATIONS FOR A BETTER FUTURE

To ensure that Ontario's 1.25 million primary and junior school students have the opportunity to reach their full potential, the government introduced its Literacy and Numeracy Strategy. Announced in 2005, this program is based on several premises — the most important of which is that every child in the province should be able to read, write, do math and comprehend at a high level by age 12. Key to achieving this goal is to ensure that every child comes to school ready to learn. See Section A: *Expanding Opportunities for Children and Families* for more information on support for children and youth.

Improved Literacy and Numeracy

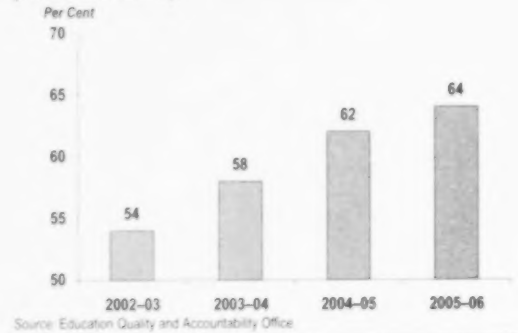
More than ever, the ability to function, contribute and prosper in society requires a sound education, which begins with solid literacy and numeracy skills. Individuals who are more literate and numerate are more likely to have better jobs, have higher productivity and earnings, and be less vulnerable to long-term unemployment.

The government recognizes that every child learns differently and that schools need specialized resources to help each student reach his or her full potential. To ensure that every child has the opportunity to succeed, the government is investing $28 million in 2007–08 for elementary specialist teachers — bringing the total to an additional 1,900 teachers over the last three years. These teachers focus on such key areas as literacy and numeracy, music, the arts and physical education — giving elementary-school teachers more time to prepare materials for the classroom, correct assignments and connect with parents.

Building on its commitment to provide Ontario schools with proven tools and resources that help children excel in reading, writing and math, the government has implemented the Ontario Focused Intervention Partnership (OFIP). Working collaboratively with school boards, OFIP targets elementary schools where at least two-thirds of students have achieved below the provincial standard on Education Quality and Accountability Office (EQAO) tests over the past three years. A team of dedicated curriculum specialists and instructional leaders goes to these schools to provide hands-on support for school and board staff to improve student achievement. The government has invested approximately $25 million to support the OFIP initiative.

Since implementing these strategies, which ensure that students receive the specialized and individual help they need, students' scores on EQAO tests have improved significantly for the third consecutive year. Province-wide test scores, which are available on EQAO's website (www.EQAO.com), show that in the 2005–06 school year, 64 per cent of Ontario Grade 3 and Grade 6 students have met or exceeded provincial standards in reading, writing and math — up from 54 per cent in 2002–03. The achievements of Ontario's students demonstrate that the government's targeted investments and strategies are working.

Percentage of Grade 3 and Grade 6 Students in Ontario Achieving Provincial Standards (School-Year Basis) **Chart 8**



Source: Education Quality and Accountability Office

Reduced Primary Class Sizes

A key way to reach every student is reducing class sizes in the early primary grades (kindergarten to Grade 3).

Since October 2003, the government has given school boards the necessary funding to add 4,800 elementary-school teachers by the 2007–08 school year, resulting in smaller primary class sizes in all of Ontario's 4,000 elementary schools. According to the most recent data available, 65 per cent of primary classes in 2006–07 had 20 students or fewer — compared to 31 per cent in 2003–04. Ninety-three per cent of all primary classes have 23 students or fewer.

Smaller classes mean Ontario's primary students receive more individual attention, which is critical to improving reading, writing and math skills. Students who do well in the early grades are far more likely to complete high school and keep learning in a college, university, apprenticeship or training program.

Class Sizes Are Down

Reducing class sizes improves achievement among Ontario's youngest students by allowing more individual attention. To reduce the size of primary classes, the government has:

- provided funds to hire approximately 1,200 new elementary-school teachers this school year — which makes 4,800 more elementary-school teachers since October 2003
- provided funds to support over $700 million in capital projects to date in order to support the reduction in primary class size
- reduced primary class sizes to 20 students or fewer in the 2006–07 school year for 65 per cent of classes across the province, compared to 31 per cent in 2003–04.

Student Success Strategy/Learning to 18

To ensure that Ontario can respond to the challenges of today's knowledge-based economy, the government has made investments and implemented programs in Ontario's high schools that address the individual learning styles and career interests of all students. By meeting these needs, the government is giving its future workforce the competitive advantage it needs to succeed.

Engaged and Targeted Curriculum

In 2004, the government announced the $1.3 billion multi-year Student Success Strategy to improve high school graduation rates, reduce student dropouts and increase the number of students who pursue further education. The strategy provides new ways for high school students to gain credits for graduation, and more learning opportunities that address the individual learning style and career interests of all students.

As part of the Student Success Strategy, the government has introduced many innovative programs to Ontario's high school curriculum that allow students to focus on career paths that match their skills and interests. Students can earn credits by participating in apprenticeship training and postsecondary courses; access co-op placements with strong links to classroom subject areas; and receive increased support,

extra guidance and unique learning opportunities. This comprehensive strategy has provided funding for 1,900 new high school teachers over the last three years to support Student Success Strategy initiatives and provide every high school with a Student Success Teacher to ensure that struggling students have access to the support they need. Results show that since the implementation of the strategy in Ontario's high schools, student achievement is on the rise.

- The pass rate on the Grade 10 literacy test has increased from 72 per cent in 2002–03 to 84 per cent in 2005–06 for English-language students.
- In 2004–05, 93,000 credits were earned through co-op programs, which represents a 22 per cent increase over the 76,200 co-op credits earned in 2003–04.
- In 2005–06, 12,000 students participated in innovative local Student Success Strategy Lighthouse projects and achieved 21,000 of the 27,000 credits attempted, representing a success rate of over 75 per cent.

Transforming High Schools in Ontario

At the heart of the Student Success Strategy are six innovative programs that give Ontario high school students more ways to accumulate credits to graduate:

- *Student success teams* — every student now has access to a dedicated team that includes a principal, a Student Success Teacher and a guidance counsellor, who provide extra attention and support when needed.
- *Specialist high skills major* — this program lets students bundle six to 12 courses in a selected field, such as hospitality and tourism or construction, to prepare for specific academic or skilled careers.
- *Expanded co-op credit* — students can earn two compulsory high school credits towards their core 18 credits through hands-on work experience.
- *Dual credit program* — students can earn credits and put them toward: their high school diploma and postsecondary diploma, degree or apprenticeship certification.
- *Lighthouse projects* — these innovative local programs help students stay in school by providing guidance, support and alternative learning environments.
- *Grades 8–9 transition* — Grade 8 and Grade 9 students have a higher risk of dropping out during the difficult transition from elementary school to high school. This initiative includes more teachers, intensive professional development, and improved tracking of struggling students and their progress.

Increased High School Graduation Rates

Ontario's dropout rate is starting to decline, thanks to the government's aggressive plan to help students reach their full potential. In 2003–04, the portion of students graduating from high school was an unacceptable 68 per cent. The Student Success Strategy is reversing this dropout trend and helping more

students build a better future for themselves as shown by the increase in the 2005–06 graduation rate to 73 per cent. The government has set a graduation target of 85 per cent by 2010–11 and Ontario's high schools are on track to meet this target, which will result in over 90,000 additional graduates between 2006–07 and 2010–11.

The *Learning to Age 18 Act*, which raises the compulsory school age to 18, was enacted in order to increase graduation rates. The legislation will broaden the range of education opportunities to meet student needs and interests, encouraging more students to keep learning in a classroom or pursue apprenticeship or workplace training programs until they reach age 18 or graduate. Introduced in the 2006–07 school year, this legislation includes new measures to foster partnerships among high schools, the community and postsecondary programs to help students achieve success. This means more high school graduates will be well equipped to find success in the labour market.

Targeted Investments in 2007

The government is taking specific steps for elementary and secondary students to address issues that are important to Ontarians:

- improving service provision in schools for students with autism spectrum disorders
- investing $4.5 million to train almost 25,000 teachers and $1.2 million to train vice-principals and principals to address bullying
- launching the Aboriginal Education Strategy and investing $13 million to improve achievement by First Nations, Inuit and Métis, students
- boosting funding for French as a Second Language as part of the Canada–Ontario Official Languages in Education agreement
- providing more than $4 million for school boards to buy arts materials and musical instruments.

Better Schools for Better Learning

Good Places to Learn

By keeping Ontario's schools in good repair, the Ontario Government is fostering student success and helping all children reach their full potential. In 2004 the government introduced the Good Places to Learn (GPL) initiative — a school renewal program to help fund $4 billion of much-needed repairs, renovations and new school construction across the province. See Section G: *Investing in Ontario's Infrastructure* for more information.

This program has significantly improved the condition of schools by responding to the most pressing needs identified in an independent province-wide school-by-school facility review. This review made it clear that the state of Ontario's school buildings was getting in the way of the instruction being delivered within them. This initiative includes improvements to roofs, electrical and plumbing systems, technology workshops and labs, heating and cooling systems, libraries and gyms.

Investments in the Good Places to Learn program are supporting critical repair and renewal projects in schools across Ontario. Currently, almost 6,800 projects supported by GPL renewal funding have been completed or are underway in schools across the province.

Textbook and Learning Resources

The Ontario Government has taken action to ensure that students have the resources they need to enhance their achievements and enrich their learning experience. By providing such learning tools as new textbooks, magazines, computer software and multimedia resources (such as CD-ROMs and DVDs), and library materials, the government is giving students what they need to succeed. In addition to annual funding provided through the GSN, the Province is providing over $50 million to schools for textbooks and learning resources. The government is also enhancing and expanding online teaching resources, which provide students with web-based video assistance and online support such as tutoring and course tips. This investment is part of the government's commitment to improving literacy and numeracy achievement while also providing the learning resources that Ontario's students need to reach their full potential.

Reaching Higher in Postsecondary Education

Ontario's progress depends on the skills and knowledge of its people. Ontario will be at its best and be prepared to compete for higher-value jobs only when every Ontarian has the opportunity to achieve his or her full potential.

The province's colleges and universities play a critical role in equipping people for success and preparing them to generate the necessary ideas, products and jobs that will ensure future prosperity the prosperity that funds social progress and maintains a high standard of living.

The 2005 Ontario Budget announced Reaching Higher, the government's historic multi-year $6.2 billion investment in postsecondary education by 2009–10.

The goals of Reaching Higher are:

- **access** — enhanced student financial assistance, increased enrolment and expanded opportunities for francophones as well as Aboriginal Peoples, new Canadians, persons with disabilities and "first-generation" students whose parents did not receive postsecondary education
- **quality** — achieving the highest standards in teaching, research and student learning experience, resulting in the skills and innovation that support economic growth
- **accountability** — improved accountability and performance through defined targets and measures.

The government's education agenda also extends to training and lifelong learning. For additional information, see Section F: *Expanding Opportunities for Economic Growth*.

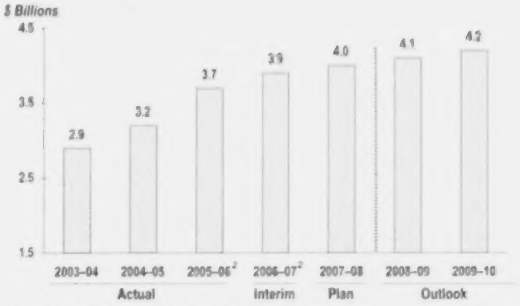
Investing in Postsecondary Education

By 2009–10, Ontario will provide $6.2 billion in new cumulative investments for postsecondary education and training through the Reaching Higher plan.

Total base operating grants to colleges and universities will rise to $4.0 billion in 2007–08 and grow to $4.2 billion by 2009–10, resulting in better learning environments.

Graduate education will also continue to grow, supported by $170 million in additional funding by 2007–08, rising to $220 million annually by 2009–10. This will result in 14,000 new graduate spaces by 2009–10.

Combined Operating Grants to Colleges and Universities[1] **Chart 9**



[1] Total of Grants for College Operating Costs and Grants for University Operating Costs.
[2] 2005–06 and 2006–07 operating grants are adjusted to reflect realignment of Postsecondary Transformation funding.
Note: Excludes $390 million in new investments in the postsecondary sector announced in this Budget.

New Investments in Postsecondary Education

In this Budget, the government is announcing an additional $390 million in support for quality improvements in higher education, including funding that could be used for investments in university and college infrastructure and equipment. This time-limited federal funding supplements the Province's significant ongoing investments through Reaching Higher which have been undertaken while awaiting a full and effective partnership with the federal government.

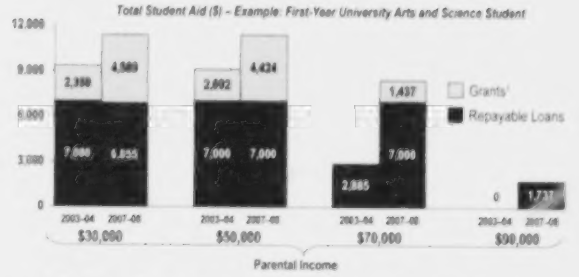
This additional funding includes $210 million for universities to alleviate immediate cost pressures. It also includes $105 million for college facilities renewal, including existing building maintenance costs, $15 million in university capital projects and $35 million for college capital projects. This additional funding also includes $25 million to support upgraded and new equipment in union–employer training centres, to meet the skills training and apprenticeship needs of the economy. It will allow the centres to keep pace with changing technological requirements, encourage collaboration and leverage additional training resources from industry partners.

Solid Progress in Student Assistance

One of Reaching Higher's achievements has been improved access to postsecondary education through enhanced student financial aid. The government has made substantive changes over the past three years to grant and loan provisions, benefiting 145,000 students this year. In 2006–07, nearly 60,000 students have taken advantage of new upfront grants re-introduced in the 2005 Ontario Budget. In 2007–08, the government will provide more than $580 million to students through the Ontario Student Assistance Program (OSAP).

The government is also working with colleges and universities to establish a new Student Access Guarantee to ensure no qualified Ontario student is prevented from studying due to a lack of financial support. As part of this initiative, access will be further strengthened through the recent addition of an Access Window website (http://accesswindow.osap.gov.on.ca), which gives students information about the approximate cost and potential loan and grant assistance from OSAP for their program choice.

Improvements in Student Assistance Under the McGuinty Government **Chart 10**



¹ Grants include upfront access grants and non-repayable loans in excess of $7,000. Examples are based on a dependent university student living away from home entering a first-year arts and science program. Assumes parents have two children — one in postsecondary education and a tuition increase of up to 4.5 per cent in 2007–08.
Source: Ontario Ministry of Training, Colleges and Universities

In addition, the government will propose amendments to the *Ryerson University Act, 1977* to update governance structures at the university.

Creating Positive Change in Postsecondary Education

Ensuring Greater Access:

- increasing full-time enrolment by 86,000 since 2002–03, a 22 per cent increase
- doubling student assistance by 2009–10, benefiting almost 200,000 students this year, up 25 per cent from 2002–03
- re-introducing upfront grants, benefiting nearly 60,000 students; and limiting student debt to $7,000 per completed year of study
- after a two-year freeze, limiting average tuition increases to an average of five per cent annually or $100 for 90 per cent of college students and $200 for 70 per cent of university students
- committing $55 million by 2009–10 to create more opportunities for francophones and those traditionally underrepresented, including persons with disabilities, Aboriginal Peoples and "first-generation" students
- increasing special access funding by $20 million in 2006–07 for small, northern and rural colleges, bringing total funding to $65 million
- increasing first-year undergraduate medical enrolment by 23 per cent by 2009–10 over 2004–05.

Improving Quality and Accountability:

- increasing operating funding by 35 per cent between 2004–05 and 2009–10 as outlined in the Reaching Higher plan, to hire new faculty, increase student/faculty interaction, and improve student services, libraries, laboratories and equipment
- expanding graduate spaces by 12,000 by 2007–08, reaching 14,000 by 2009–10
- supporting innovative research in cutting-edge fields such as biomaterials and mining innovation
- monitoring quality through a new Higher Education Quality Council of Ontario
- establishing three-year agreements with colleges and universities to identify and measure quality improvements
- the economic stimulus package announced in the *2006 Economic Outlook and Fiscal Review* includes $30 million for infrastructure projects at 15 colleges.

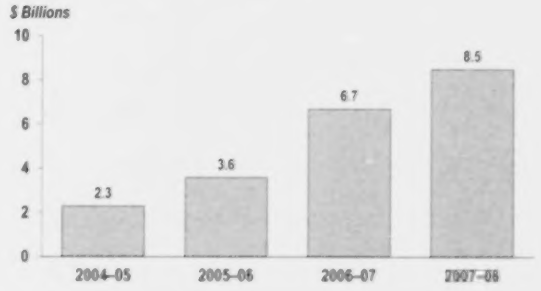
SECTION D: EXPANDING OPPORTUNITIES FOR BETTER HEALTH

OVERVIEW

Expanding opportunities for Ontarians to achieve better health is one of the McGuinty government's top priorities. Since taking office, the government's plan to achieve better health care has focused on four key strategies: shortening wait times for key procedures, increasing access to health professionals, promoting wellness and preventing illness, and improving efficiency and accountability.

Building on the investments made to date, this Budget proposes $37.9 billion in health sector spending in 2007–08, a 29 per cent or $8.5 billion increase from the 2003–04 level of $29.4 billion. (See Chart 11.)

Priority Spending in Health Sector: Spending Increases Since 2003–04 — Chart 11



Source: Ontario Ministry of Finance

In 2007–08, this Budget includes additional funding of:

- $135 million to further reduce wait times, including wait times for pediatric surgeries
- $43 million to provide full-time employment opportunities for new Ontario nursing graduates and another $14 million for more nurses in long-term care homes, to bring the total number of nurses hired since 2003 to over 8,000 by the end of 2007–08
- $34 million to improve access to health professionals
- $143 million to improve access to emergency care
- $2.5 million for the Communities in Action Fund to encourage Ontarians to participate in sports and other physical activity, bringing the total investment to $7.5 million annually
- $64 million in e-Health initiatives
- $7 million to expand addiction treatment programs
- approximately $20 million, growing to approximately $40 million per year, to support a new colorectal cancer screening program for all Ontarians aged 50 and older.

These new investments build on the results achieved to date, including:

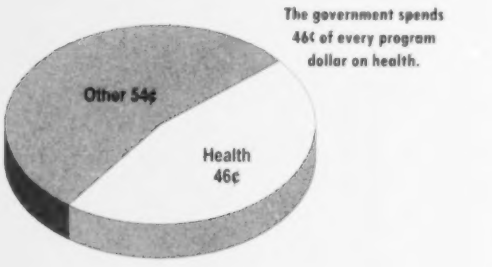
- shorter wait times and more medical procedures. For example, cataract patients are being seen 128 days sooner than in 2005 and the government has provided about 58,000 more cataract surgeries since 2003
- better access to primary care — more than 500,000 Ontarians who did not have a family doctor now have one and 150 Family Health Teams (FHTs) are planned to be up and running by the end of 2007–08; it is anticipated that these FHTs will serve more than 2.5 million patients
- creation of Ontario's first Ministry of Health Promotion, which, among other things, has implemented the Smoke-Free Ontario Strategy
- preventing illness by providing free-of-charge immunizations against three childhood diseases and putting the Ontario breast screening program on track to complete over 600,000 screens per year by 2010–11
- funding insulin pumps and related supplies for children with Type 1 diabetes as well as creating 77 new and enhanced community diabetes education teams
- establishing 14 Local Health Integration Networks (LHINs) to work with health service providers and community members to act on local priorities.

Achieving Better Health

The Ontario Government has invested significantly in transforming the sector to meet patients' needs and create a sustainable health care system. These investments are focused on four key strategies to achieve better health:

- shortening wait times for key procedures
- increasing access to health professionals
- promoting wellness and preventing illness
- improving efficiency and accountability.

2007–08 Program Expense **Chart 12**



Note: Health program expense includes Hospitals, and Ministries of Health and Long-Term Care and Health Promotion.

The government has made significant progress on its key priorities and will continue to make important health investments. Spending in the health sector will be $37.9 billion in 2007–08, rising to $39.8 billion

in 2008–09 and $41.5 billion in 2009–10. The following details the progress made to date on these priorities and proposed new investments in 2007–08.

Shortening Wait Times

Ontario's Wait Time Strategy improves access to health care and reduces patient wait times in five areas: cancer surgery, cardiac procedures, cataract surgery, hip and knee replacements, and magnetic resonance imaging and computed tomography (MRI/CT) scans. In this Budget, the government is announcing that it plans to add pediatric surgeries to the strategy.

From 2003–04 to 2006–07, the Ontario Government invested nearly $1 billion in its Wait Time Strategy, primarily to provide more procedures, improve surgical efficiency, and develop a comprehensive wait time information system to track and monitor wait times. The government also invested in the creation and expansion of hospital facilities. See Section G: *Investing in Ontario's Infrastructure* for further details.

More Procedures to Shorten Wait Times

The number of procedures has increased significantly since 2003–04:

- MRI scans: increase of 78 per cent
- hip and knee replacements: increase of 50 per cent
- cataract surgeries: increase of 39 per cent
- cardiac surgeries: increase of 27 per cent
- CT scans: increase of 15 per cent
- cancer surgeries: increase of 11 per cent

Ontario's Wait Time Strategy is working. Wait times are down for all procedures included in the strategy. Key wait times reductions since 2005:

- cataract surgeries: wait times down 128 days or 41 per cent
- knee replacements: wait times down 133 days or 30 per cent
- cancer surgeries: wait times down 13 days or 16 per cent.

With this Budget, the government's Wait Time Strategy would:

- provide approximately 11,900 hip and knee replacements, 31,900 cataract surgeries, 6,300 cancer surgeries, 151,000 MRI exams and 71,800 CT scans per year
- increase rehabilitation services to support patients who have received hip and knee replacements
- provide funding to reduce wait times for pediatric surgery; this would include more than 10,000 surgeries over four years
- expand the Wait Time Information System to eventually capture all surgeries in hospitals currently receiving wait times funding. Ontarians can access wait times data for the five key areas through www.ontariowaittimes.com.

Improving Access to Nurses, Doctors and Other Health Professionals

Ontarians depend on nurses, doctors and other health professionals across the province to provide care. The government's innovative health-human-resource strategy, HealthForceOntario, helps facilitate the right mix, supply and distribution of human resources across the province. Key components of this strategy include:

- hiring over 8,000 more nurses since 2003 — in this Budget, the government delivers on this commitment through an additional $43 million, bringing the total to $89 million, to provide every new Ontario nursing graduate with an opportunity for full-time employment, and an increase of $14 million for more nurses in long-term care homes
- training more doctors — first-year medical school enrolment is being increased by 23 per cent between 2004–05 and 2009–10; assessment positions for international medical graduates have more than doubled to 200 per year, up from 90 in 2002
- supporting other health professions — the government has supported a diverse range of health services by regulating traditional Chinese medicine and proposing legislation to regulate naturopathy, homeopathy, kinesiology and psychotherapy
- attracting qualified health care professionals — through the HealthForceOntario Recruitment Centre and a listing of current employment opportunities, available at www.healthforceontario.ca.

Revitalizing the Nursing Workforce

Hiring More Nurses

- bringing the number of nurses hired since 2003 to over 8,000
- providing an additional $43 million, bringing the total to $89 million, to support full-time employment opportunities for Ontario nursing graduates in 2007.

Creating a Better Working Environment

- increasing the share of nurses working full time from 50 per cent in 2004 to 60 per cent in 2006
- supporting late-career nurses so that new nurses benefit from their knowledge, skills and experience
- purchasing $103 million of safety equipment — such as patient lifts, electric beds and safety alarms.

Expanding Education and Training

- increasing nurse practitioner spaces from 75 in 2004 to 150 in 2006 and ongoing
- providing critical care training to 450 nurses per year
- purchasing $20 million for clinical simulation equipment.

Improving Access to Emergency Care

Emergency departments are a critical point of access in the health care system. The government is improving access to emergency care by investing an additional $143 million in 2007–08 through the Emergency Department Action Plan. The plan is:

- improving physician coverage in, and increasing the efficiency of, emergency departments across the province
- providing more care in the community, by investing $35 million in more home care services and supports to keep people healthy at home
- supporting the development of 1,750 new long-term care beds and replacement of 662 long-term care beds to help discharge patients from hospitals.

Better Access to Primary Care

Primary health care is often the initial point of contact for patients in the health system. The government is transforming and improving the delivery of primary care through FHTs. Family Health Teams consist of doctors, nurse practitioners, nurses, dietitians, pharmacists, social workers and other health providers, who provide comprehensive care, seven days a week.

- By the end of 2007–08, 150 FHTs are planned to be fully operational across the province in both urban and rural settings.
- Family Health Teams will provide care to more than 2.5 million Ontarians in 112 communities.
- By 2007–08, the number of Community Health Centres (CHCs) will rise to 76 from the current 54 and the number of satellite CHCs will rise to 27 from the current 10. These new CHCs and satellites will serve an additional 200,000 people.

Promoting Wellness and Preventing Illness

Preventing Ontarians from getting sick is central to the government's plan for health care. This is why the government is focusing on healthy and active living, illness prevention and health promotion. Over the long term, these investments will help manage health care costs.

Healthy and Active Living

The government created the Ministry of Health Promotion, the first in the history of Ontario, to develop programs to promote healthy and active living. The ministry has implemented several initiatives including:

- The *Smoke-Free Ontario Act*, which prohibits smoking in all enclosed workplaces and enclosed public places. The act also strengthens restrictions on the sale of cigarettes and phases out the display of tobacco products. Displays are to be completely banned by May 31, 2008. Since 2003,

the percentage of individuals aged 25 and older who smoke has decreased from 19 per cent to 16 per cent in Ontario.

- Healthy Eating and Active Living, a comprehensive plan to promote healthy lifestyles across the province

- ACTIVE2010, a strategy to enhance opportunities for physical activity with the goal of 55 per cent of Ontarians being physically active by 2010.

With this Budget, the government is continuing to prioritize health promotion by:

- providing an additional $2.5 million to the Communities in Action Fund, raising the total to $7.5 million per year, to encourage Ontarians to participate in sports and other physical activities

- continuing the Quest for Gold lottery, which provides about $10 million to amateur athletes to help with high-performance training and enhanced coaching, enabling Ontario athletes to excel in competitions such as the 2008 Summer and 2010 Winter Olympic Games

- providing $2 million for the 2009 World Junior Hockey Championships to be held in Ottawa

- investing $41 million in community infrastructure and multi-use facilities to promote physical activity, sport and wellness in various communities throughout Ontario including:

    - $3 million for Port Colborne's multi-purpose sports complex
    - $3 million for the Hunt Club-Riverside Community Centre in Ottawa
    - $1.3 million for Cobourg's ice rink
    - $1.3 million for the Moosonee multi-use facility.

Investing in Public Health

A strong public health system is important in preventing illness and promoting wellness. The government has demonstrated its commitment to the public health system by:

- increasing the Provincial share of public health funding from 50 per cent in 2004 to 75 per cent as of January 1, 2007

- adding, free of charge, three new vaccines to the roster of recommended childhood vaccinations, saving families about $600 per child

- expanding the Province's Newborn Screening program to 28 tests for genetic disorders

- increasing its support for the Ontario breast screening program to complete over 600,000 screens per year by 2010–11.

In this Budget, the government is:

- providing approximately $20 million, growing to approximately $40 million per year, for colorectal cancer screenings for those aged 50 and older — the first program of its kind in Canada
- providing funding for the Ontario Agency for Health Protection and Promotion, an arm's-length centre of excellence that would provide support during any future public health emergency
- providing $1.5 million in 2008–09 — growing to $2.5 million by 2010–11 — to enhance the regional capacity of communities to respond to HIV/AIDS. Funds will be allocated to community-based AIDS service organizations and community-based HIV clinical services. This funding will see expanded programs and services for high-risk populations
- granting $3 million to the Heart and Stroke Foundation of Ontario, an organization that advocates using automated external defibrillators in community centres and arenas to save lives
- investing approximately $7 million to expand addiction treatment programs. The government is also investing $1 million for a one-year pilot project in Stratford to target producers and traffickers of methamphetamine (crystal meth) and dismantle their labs.

Improving Efficiency and System Integration to Meet Patients' Needs

The Ontario Government is implementing innovative strategies to provide health care services and improve patient care, both now and in the future. Innovation includes making the best use of information technology and best practices in accountability and governance.

Renewing Ontario's e-Health Strategy

E-Health involves the introduction of modern information technology that will better connect the entire health care system and improve accountability. Providing the right information at the right time and in the right place will improve outcomes, improve patient safety and make better use of existing health care resources.

Telemedicine is an example of how technology can be used to benefit patients. It provides the capability to virtually connect a patient from a remote or rural area to a health specialist in another city located hundreds of kilometres away. Today, this service is available at 359 sites and reaches more than 23,000 patients.

With this Budget, the government is providing an additional $64 million in 2007–08 to promote its comprehensive e-Health strategy, including:

- continued progress towards a secure electronic health record for all Ontarians, which will ensure providers have the information they need to care for patients safely, no matter where they treat them

- expanding systems that provide drug and lab information as well as diagnostic images while protecting the security and privacy of patient information.

Patient-Centred Health Care

Improving the way health services are planned, integrated and delivered will improve patient care and allow the cost of services to be managed more efficiently and in a way that is sustainable over the long term.

In 2005, the government created 14 Local Health Integration Networks (LHINs) to work with health service providers and community members to provide an integrated and patient-centred health care system that is focused on local needs. The LHINs will make it easier for patients to gain access to the health services they need because these services will be coordinated locally — in their communities — with all the advantages that result from local awareness. Better service integration and coordination on a community basis will mean better resource allocation.

The government will continue to work with the LHINs as they build on their planning activities and the role of funding and integrating local health services. The government will work with LHINs to realize the local priorities that the LHINs had identified in their Local Health Strategic Plans through their community engagement efforts.

LHINs and Related Health Services Providers **Table 5**

Sector	Share of Total LHINs' Transfer Payment Budget in 2007–08
Hospitals	71%
Long-Term Care Homes	13%
Community Care Access Centres	9%
Community Mental Health	3%
Other	4%

Source: Ontario Ministry of Health and Long-Term Care.

The government will work with LHINs on their financial plans and will monitor and review these plans as part of the government's annual budgeting process. In addition, accountability agreements between health service providers and LHINs, and between LHINs and the government, will ensure the responsible use of health care resources.

Creating a Sustainable Hospital Sector

This year, the government worked with hospitals to put the sector on a sound financial footing before LHINs take over funding authority. Towards this goal, the government provided an additional $115 million to help hospitals improve efficiencies and address operational pressures. As well, the ReNew Ontario plan includes funding for the construction of new cancer treatment programs in Barrie, Newmarket, St. Catharines and Sault Ste. Marie, and for the renovation and expansion of the centres in Ottawa and Kingston.

Creation of a sustainable hospital sector goes beyond funding. The government introduced and implemented Hospital Accountability Agreements (HAAs) that set clear expectations around performance and funding for two years. For each hospital, an HAA provides:

- negotiated performance targets on service volumes
- multi-year operating funding targets that facilitate better and longer-term planning.

Ensuring Value for Money

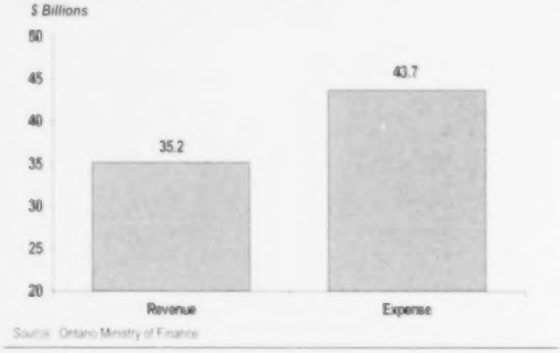
The government has also initiated the Province's drug strategy, including the proclamation of the *Transparent Drug System for Patients Act*, to reform the provincial drug system and deliver better value for money to Ontario's taxpayers. This act improves patient access to drugs through new review processes for new drugs. It also recognizes the valuable role that pharmacists play in providing enhanced patient counselling.

Details of Investments in the Health Sector

Since taking office, the government has made strategic investments and achieved tangible results. The introduction of the Ontario Health Premium (OHP) has helped to ensure the government's ability to maintain health services. Every penny of the OHP goes towards improving Ontario's health care system. In 2006–07, revenue from the OHP generated $2.6 billion, representing 7.2 per cent of total expenses for the Ministries of Health and Long-Term Care and Health Promotion.

Health-related revenues, including federal transfer payments, Employer Health Tax, OHP and selected net proceeds from the Ontario Lottery and Gaming Corporation, are expected to increase by $667 million to $17.4 billion in 2007–08. It should be noted that all health-related revenues contribute only a portion of total health-related spending. In 2007–08, health-related revenues are expected to amount to 46 per cent of the $37.9 billion required for the Ministries of Health and Long-Term Care and Health Promotion.

Cumulative Change in Health-Related Revenues and Expense, 2003–04 to 2009–10 Chart 13



Source: Ontario Ministry of Finance

Expanding Opportunities for Better Health[1]
($ Billions)

Table 6

	Change from 2003–04 to 2007–08
Hospitals — increase in payments for direct hospital activities, including funding for additional surgical and diagnostic procedures related to Ontario's Wait Time Strategy.	2.7
OHIP Services — to fund services provided by physicians and other health care practitioners, including the implementation of 150 new Family Health Teams.	2.5
Ontario Drug Programs — primarily for increased utilization.	0.8
Long-Term Care — to enhance the quality of care provided to over 75,000 residents of long-term care homes and to increase long-term care capacity.	0.8
Community Services — to expand home care, community support services and supportive housing.	0.6
Public Health including Health Promotion — to increase funding for public health programs including those delivered by public health units, immunizations, and for health promotion and illness prevention activities.	0.5
Other — including Cancer Care Ontario, mental health, emergency health services and other programs.[2]	0.6
Total Increase in Funding	8.5

[1] Figures reflect major operating transfer payments in the Ontario Ministries of Health and Long-Term Care and Health Promotion.

[2] Includes changes in capital expense and the impact of consolidation of hospitals and other entities.

Sources: Ontario Ministries of Health and Long-Term Care and Finance.

SECTION E: EXPANDING OPPORTUNITIES FOR A GREENER ONTARIO

OVERVIEW

Ontario's future well-being and long-term prosperity depend on both a strong economy and a sustainable, healthy environment. The McGuinty government is committed to expanding opportunities for a greener Ontario.

This spring, the government will present a plan to establish a greener economy in Ontario, including addressing air quality and climate change in a way that also strengthens Ontario's economy.

To build on the government's sustained efforts to improve the environment and the economy, this Budget proposes close to $125 million in immediate initiatives to further establish the foundation for environmental action.

To encourage individuals to support energy efficiency, the government will invest $24 million to provide Ontario homeowners with rebates of up to $150 for home energy audits. The government will also allocate $1.5 million to Project Porchlight, which delivers energy-efficient light bulbs to Ontario homes.

Trees help remove carbon dioxide from the air. In this Budget, the government is providing $2 million to the Trees Ontario Foundation, an organization dedicated to planting trees throughout Ontario.

Innovation is key to a greener economy. The government is providing $6 million to the Ontario BioAuto Council, a multi-industry initiative to position the province as a global leader in manufacturing auto parts and other materials from agricultural and forestry feedstocks. The government is also investing $15 million in the Ontario Centres of Excellence. Investments in lightweight and bio-based materials, along with the development of alternative fuels, can lead to the clean car technologies of the future.

The government is providing $21 million to Queen's University, which is working in partnership with the private sector to establish a convergence centre for bio-products and bio-materials. The Province is providing $6 million to Lakehead University, which is building its capacity to contribute to the competitive and sustainable development of Ontario's boreal forest. As well, the government is providing $3 million to the University of Ontario Institute of Technology, which is developing its capacity in hydrogen technology research.

Green communities enhance Ontario's quality of life. Building on the Move Ontario priorities announced in the 2006 Budget, construction will begin on the Toronto–York subway, Brampton AcceleRide and Mississauga Transitway, easing traffic and reducing greenhouse gas emissions. Provincial gas tax revenues to support municipal transit will reach $313 million in 2007 and will total $1.6 billion by 2010. This Budget also announces a doubling of the Rural Infrastructure Investment Initiative to $140 million. The initiative supports municipal water and wastewater infrastructure.

The government recognizes that several Ontario communities have a high number of brownfield properties that may act as a barrier to development in strategic locations and could be returned to productive use. The government is providing $11 million to Hamilton, Cornwall, Brantford, St. Catharines and the University of Ottawa.

The Budget also increases the government's investments in Ontario's precious natural resources, including $28 million over four years to support the Drinking Water Stewardship Program to protect water sources from contamination.

Since taking office in 2003, the McGuinty government has taken a number of significant measures to improve air quality, protect water and land, manage waste and encourage a culture of conservation. Over the past three years, generation from coal plants has fallen by about 30 per cent, representing a large reduction in greenhouse gas emissions. The phase-out of coal-fired electricity plants will represent, when complete, a reduction of up to 30 million tonnes of greenhouse gas emissions, the single largest reduction of emissions in Canada.

Significant progress has been made, but more effort is required. The government's major plan to protect the environment and establish a greener economy will be unveiled this spring.

The Clean Air and Climate Change Trust

The federal government has announced the establishment of a trust for clean air and climate change. The $1.5 billion trust recognizes the principle of equitable treatment of Canadians and is providing Ontario with $586 million.

The federal trust is an important investment that will assist the Province with climate change initiatives. Funding would be applied to ongoing and new Ontario projects and programs that support clean air.

To date, the Ontario Government has advanced significant climate change initiatives, including more than $84 million over the next three years to develop and implement policies to monitor, analyze and address smog and air toxins; nearly $380 million over the next three years to expand the GO Transit system in key commuter corridors; and $3.9 million to establish a bio-energy research centre associated with the Atikokan Generating Station. In addition to the nearly $125 million in measures announced in this Budget, the government will have more than $200 million over the next three years to fund further climate change initiatives.

Incentives for Early Actions

In addition to the measures introduced by the Ontario Government since 2003, this Budget introduces several new initiatives to improve air quality and address the challenge of climate change. These measures take immediate action in advance of an upcoming spring announcement of a plan to establish a greener economy in Ontario and address air quality and climate change.

The government is providing $2 million to the Trees Ontario Foundation. Accelerated tree planting helps remove carbon dioxide from Ontario's air.

The simple act of replacing a light bulb is the most accessible action available to people to conserve electricity. Based on their proven success in Guelph, Thunder Bay, Ottawa and the Yukon, the government will be providing Project Porchlight with $1.5 million to enable local volunteers to deliver an energy-efficient light bulb to over 500,000 Ontario homes this summer. The energy savings from this will be enough to power over 5,200 homes a year.

To encourage homeowners to undertake energy audits, the government is providing $24 million over four years to help lower the cost of a home energy audit by up to $150. This new initiative will complement the recently announced federal ecoENERGY Retrofit Program, which provides financial support and information for energy retrofits in homes, as well as in small buildings and industries.

In February 2007, the Province introduced Bag It Back, a new deposit return program for recycling wine, beer and spirit containers, which encourages Ontarians to return empty containers for a refund, resulting in less waste going to landfill. This program will help divert about 25,000 to 30,000 additional tonnes of glass from landfills — which is equivalent to about 80 million bottles. The new container return program will also free up space in Blue Boxes, giving municipalities the opportunity to expand recycling programs.

Tax Initiatives

The Ontario Government has several tax initiatives in place that support energy conservation in the province.

- To promote the use of fuel-efficient hybrid vehicles in Ontario and support the auto industry's efforts to develop improved vehicle technology, the Province provides a retail sales tax (RST) rebate for qualifying hybrid vehicles, to a maximum of $2,000.
- The rebate for hybrid vehicles is an element of the RST rebate for alternative fuel vehicles. The RST paid on vehicles powered by alternative fuels is refunded, to a maximum of $750 for propane vehicles and $1,000 for vehicles powered by any other alternative fuel.
- There is also a temporary RST rebate for solar, wind, micro hydro-electric and geothermal energy systems installed into residential premises. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity* for more details.

Ontario's tax system also provides support for the conservation of ecologically sensitive land certified under the Ecological Gifts Program. Any gain arising from a qualifying donation of such land made after May 1, 2006 is exempt from corporate and personal income tax and from corporate minimum tax.

Innovation for Jobs and a Green Economy

It is well recognized that a key element in addressing climate change is investing in the development of new environmental technology.

In this Budget, the government is providing $6 million to the Ontario BioAuto Council, a multi-industry initiative to position the province as a global leader in manufacturing auto parts and other materials from agricultural and forestry feedstocks. This builds on the Premier's announcement on March 8, 2007 of a $5.9 million investment in the Ontario BioCar Initiative, a research project to turn Ontario's harvest into viable materials for the auto industry.

The government is also investing $15 million in the Ontario Centres of Excellence, which promotes linkages between academia and businesses to bring energy innovations to market. Ontario is well positioned to tap into new markets for low-carbon energy technologies, including alternative fuels such as hydrogen. Investments in lightweight and bio-based materials, along with development of alternative fuels, can lead to the clean car technologies of the future.

The government is providing $21 million to Queen's University, which is working in partnership with the private sector to establish a convergence centre for bioproducts and biomaterials that will help make Ontario a global leader in the field of high-value-added, environmentally sustainable manufacturing.

The Province is providing $6 million to Lakehead University, which is building its capacity to contribute to the competitive and sustainable development of Ontario's boreal forest.

The government is providing $3 million to the University of Ontario Institute of Technology (UOIT), which is developing its capacity in hydrogen technology research.

The government is also allocating $400,000 to the Durham Strategic Energy Alliance, an organization of industry, academia, local and regional Durham governments committed to developing sustainable energy solutions for Ontario.

As of January 1, 2007, gasoline sold in Ontario is required to contain an average of five per cent ethanol, helping reduce greenhouse gas (GHG) emissions equivalent to removing 200,000 cars from the road each year. The government's $520 million Ontario Ethanol Growth Fund complements this measure by supporting the production of ethanol fuel in Ontario.

Investments in Green Renewable Energy and Conservation

The government has set targets to double renewable energy sources including wind, solar and water to 15,700 megawatts (MW) by 2025 — *making Ontario a leader in clean energy.*

Seven energy-efficient combined heat-and-power cogeneration projects totalling 414 MW are among the new supply projects currently underway. These projects include a Thorold paper mill, a Ford plant in Windsor, and a plant to serve a Sault Ste. Marie steel mill.

To encourage smaller-scale, distributed generation in Ontario, the government has passed a regulation on net metering to enable homeowners, farms and businesses generating renewable electricity to receive credit for the excess electricity they produce. In addition, the Ontario Power Authority (OPA) has a standard offer program aimed at small-scale generation that will be connected to the lower-voltage distribution system, increasing the availability of renewable power and promoting economic development within communities. As of February 27, 2007, 22 projects representing more than 140 MW had been awarded under this program. The program is the largest of its kind in North America and is expected to add 1,000 MW of clean energy to the grid over the next 10 years.

The government has also directed that an aggressive conservation and demand management goal be built into the OPA's plan, with a reduction in projected peak electricity use by 1,350 MW across Ontario by 2007, an additional 1,350 MW by 2010, and 3,600 MW more by 2025 — for a total of 6,300 MW by 2025.

- The government has so far set in motion conservation programs and initiatives representing more than $2 billion over the next several years.
- To promote conservation, the government is also proceeding with the installation of 800,000 smart meters in Ontario homes and businesses by the end of 2007, and all homes and businesses by the end of 2010, allowing electricity consumers to reduce and shift their electricity demand in response to electricity prices, and helping to meet the Province's conservation target.

Building Green Communities

Sustainable Transportation

New investments in transit across the province through the government's Move Ontario program will help reduce gridlock, air pollution and GHG emissions by providing alternatives to driving. For example, the Toronto–York subway will help reduce 250,000 tonnes of GHG annually and eliminate 30 million car trips annually.

Overall, the Move Ontario transit projects have the potential to enable 42 million more transit rides in the GTA, resulting in 35 million fewer car trips on Ontario roads and highways each year. These projects have the potential to create 27,000 jobs. See Section G: *Investing in Ontario's Infrastructure* for further details.

Brownfields Reform

Cleaning up brownfield properties has both environmental and social benefits and is important to the economic vitality and growth of Ontario's communities.

Several Ontario communities have a high number of brownfield properties that may act as a barrier to development in strategic locations and could be returned to productive use. The government is providing $11 million to Hamilton, Cornwall, Brantford, St. Catharines and the University of Ottawa.

The government is announcing a comprehensive reform package that would, if passed, address the regulatory and liability barriers to brownfield redevelopment and help ensure that the public interest remains protected. The package includes:

- legislative reform proposals to address liability barriers to brownfield redevelopment for the Crown, municipalities, purchasers/developers and those engaged in site remediation work

- improved provincial oversight to support existing and new liability protection, including updating environmental standards, certification of Qualified Persons (such as engineers), and making technical amendments to the existing regulatory framework.

The government is committed to changing patterns of land development to support the redevelopment of brownfields. To date, initiatives to support brownfield redevelopment include removing provincial Crown liens on brownfield properties; providing tax relief through the Brownfields Financial Tax Incentive Program (BFTIP); establishing Brownfields Ontario; and providing funding to the Ontario Centres of Excellence, for the evaluation and testing of new brownfields remediation technology.

Water and Wastewater Infrastructure

Investing in drinking water and wastewater systems is essential to ensuring healthy, sustainable communities into the future. The government is providing support for municipalities in meeting their water and wastewater needs through initiatives such as Infrastructure Ontario's OSIFA loan program, the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF) and the Rural Infrastructure Investment Initiative.

Ontario is also working with municipalities and other stakeholders to help ensure the long-term financial sustainability of drinking water and wastewater systems. See Section G: *Investing in Ontario's Infrastructure* for further details.

Energy and Climate Change

Ontario remains committed to phasing out coal-fired electricity generation and replacing it with cleaner sources of energy. The Province's comprehensive energy plan will achieve a healthy balance by moving away from coal in favour of conservation and greener forms of energy. When complete, the phase-out of coal-fired plants will represent a reduction of up to 30 million tonnes of GHG emissions, the single-largest reduction of emissions in Canada.

The Province is working with neighbouring U.S. jurisdictions to reduce transboundary air pollution. More than half of the Province's air pollution comes from transboundary sources.

The government has also set targets that will double the installed capacity of renewable electricity generation by 2025.

The *Energy Conservation Responsibility Act*, passed in February 2006, facilitates the implementation of smart metering for residential and small business consumers across the province, which will help consumers better manage their energy costs.

Ontario's Conservation Bureau is leading the Province's efforts to continue to build a culture of conservation and energy efficiency. Six of Ontario's largest local electricity distribution companies work cooperatively with the government to deliver the powerWISE campaign, a multi-year initiative designed to promote energy conservation to consumers and reduce electricity demand.

Progress on Air Quality and Climate Change

Ontario is making progress on GHG emissions. Over the past three years, generation from coal plants has fallen by about 30 per cent, representing a large reduction in GHG emissions — equivalent to the emissions from more than two million cars.

Ontario is continuing to move forward on a potential investment to construct an East–West electrical transmission interconnection with Manitoba to allow for the importation of clean hydroelectric power.

As well, the new Ontario Building Code, which took effect on December 31, 2006, introduced the most energy-efficient building standards in Canada.

The government is providing $3 million to the Ontario Sustainable Energy Association (OSEA). The OSEA is a non-profit association of local organizations developing sustainable energy projects in and for their communities.

The government is also providing $150,000 to the Ontario School Bus Association. The Association is undertaking a pilot program to investigate training, education and technical means to reduce emissions from school buses in Ontario.

Waste Diversion

The Province has introduced several measures to increase waste diversion, including directing Waste Diversion Ontario to develop and fund diversion programs for household hazardous and special materials, and streamlining the approval requirements for converting certain types of waste into alternative fuels to keep it out of landfills and put it to beneficial uses. The government has also streamlined the approvals process for pilot or demonstration projects to encourage innovative waste technologies, such as energy-from-waste facilities.

Toronto, Windsor, Hamilton, Region of Peel, London and Quinte West are undertaking apartment recycling pilot projects. The government is providing $305,000 to these six municipalities.

The Recycling Council of Ontario is working to develop a zero waste toolkit for upcoming community information events, as well as encouraging the use of reusable plastic bags. The government is providing $325,000 to the Recycling Council.

Places to Grow

The population of the Greater Golden Horseshoe region in southern Ontario is expected to grow by approximately four million over the coming decades. Through the Places to Grow initiative, the government is committed to ensuring that this growth contributes to prosperous, healthy and diverse communities, which benefit all parts of the province.

The government's Places to Grow: Growth Plan for the Greater Golden Horseshoe is a comprehensive 25-year strategy to maximize the benefits of growth and maintain Ontarians' high quality of life. It is a plan to grow in a more complete way — so communities are good places to live, work, shop and play. It is a growth strategy that will create communities where it is easier for people to get around on foot, bike or transit.

The Growth Plan sets clear standards for growth and development, while giving local governments the flexibility they need to address local circumstances.

On December 19, 2006, the American Planning Association (APA) announced that the Growth Plan had won the Daniel Burnham Award, making it the first non-U.S. plan to win this prestigious award. This award is given to the plan that best illustrates progress, community benefit and contribution to the advancement of the planning profession. The APA is the pre-eminent professional planning organization in the United States, representing over 39,000 professional planners, officials and citizens.

Leading by Example

The Ontario Government is reducing its own electricity consumption by 10 per cent through innovations such as deep lake-water cooling, extensive energy retrofits across the government's real estate portfolio, and engaging the Province's civil service in energy conservation initiatives.

The government has also asked Canadian astronaut and scientist Dr. Roberta Bondar to chair a working group that will review how the environment and conservation are being taught in elementary and secondary schools.

Natural Resources Stewardship

Protecting Ontario's Water

Ontario's extensive networks of ground and surface waters are a significant part of Ontarians' quality of life and the province's economic prosperity.

Clean and safe drinking water is essential to daily life. Protecting it remains a top priority of the government. The government's commitment to ensuring that Ontarians have safe clean drinking water is founded on the approach to drinking water protection embodied in the recommendations of Justice Dennis O'Connor's Report of the Walkerton Inquiry. As a result of actions taken since the report was issued, a strong safety net of drinking water protection has been put in place — one that Ontarians can rely on.

The government is committed to fulfilling all of Justice O'Connor's recommendations arising from the Walkerton Inquiry and is on track to meet all of the recommendations; so far, 87 of the total of 121 recommendations have been implemented and all others are underway.

Great Lakes

The government has been a leading champion of Great Lakes protection. In December 2005, Premier McGuinty signed the Great Lakes–St. Lawrence River Basin Sustainable Water Resources Agreement to prevent diversions and large removals of water from the Great Lakes Basin.

Under a proposal to renew the Canada–Ontario Agreement Respecting the Great Lakes Basin Ecosystem with the federal government, Ontario would invest more than $30 million to help restore and sustain the Great Lakes. The government will also prepare for new and emerging challenges as it fights climate change, invasive species and habitat destruction in the Great Lakes aquatic ecosystems.

Drinking Water Stewardship Program

Ontario will invest $7 million this year in its new Drinking Water Stewardship Program under the *Clean Water Act*. This will allow incentives for early action to protect drinking water sources across the province, and for outreach and education to help all Ontarians do their part to protect drinking water sources from contamination. The government will invest another $21 million for the following three years in the Drinking Water Stewardship Program.

Ontario a Leader on Drinking Water Protection

The Sierra Legal Defence Fund has ranked Ontario the leading jurisdiction in Canada in terms of protecting drinking water on the basis of its high treatment standards, containment standards, accredited labs for quality testing, operator certification and public reporting.

The Province has also committed $120 million from 2004 to 2008 to fund source water protection planning to protect drinking water sources across the province.

The government supports the public's right to know about their drinking water systems. Its Drinking Water Portal provides, for the first time, a single user-friendly point of access to all critical drinking water information.

Natural Spaces and Resources

Ontario is blessed with some of the most enviable natural resources, forests, farmland and green spaces in North America. The Province is committed to working with municipalities and others to protect this rich natural heritage and economic resource.

The government is providing $2 million to the Rouge Park Alliance. The Alliance works to protect, restore and enhance the natural, scenic and cultural values of the park in an ecosystem context, and to promote public responsibility, understanding, appreciation and enjoyment of this heritage.

The government will propose amendments to the *Niagara Escarpment Planning and Development Act* to allow better enforcement of the restrictions in the statute, further ensuring that development on the Niagara Escarpment is compatible with the natural environment.

In 2005, the government also launched the Natural Spaces Program, which recognizes the need to restore and protect natural areas across southern Ontario.

Biodiversity

Over the past year, the government has taken action on biodiversity by regulating new parks and conservation reserves, supporting natural heritage protection, launching an update of the Province's species-at-risk legislation, and working to protect and restore many fish and wildlife species.

Greenbelt

The *Greenbelt Act, 2005* enabled the creation of a Greenbelt Plan to protect from urban sprawl about 1.8 million acres of environmentally sensitive and agricultural land in the Greater Golden Horseshoe. The Greenbelt extends 325 kilometres from the eastern end of the Oak Ridges Moraine, near Rice Lake, in the east, to the Niagara River in the west. It includes 800,000 acres of land protected by the Niagara Escarpment Plan and Oak Ridges Moraine Conservation Plan.

Progress on Protecting Ontario's Natural Heritage

Today, Ontario's vast system of parks and protected areas totals 9.5 million hectares, and includes areas of magnificent old-growth forest, woodland caribou ranges, wilderness rivers, wetlands, and habitat for rare and endangered plants and animals.

In 2005, about 3.0 million tonnes of municipal and industrial, commercial and institutional waste were diverted through the 3Rs (reduce, reuse and recycle) program.

The Greenbelt is a key part of the government's commitment to environmental protection. It permanently helps to protect the water Ontarians drink and the air they breathe as well as some of Ontario's most valuable green spaces, farmland, forests, wetlands and watersheds. It also means that farmers can continue to grow food closer to home. Ontarians and visitors alike enjoy the Greenbelt's many recreation opportunities, including its trails and parklands.

The Province also provided $25 million to the Friends of the Greenbelt Foundation, which is a not-for-profit organization that coordinates and funds activities such as the promotion of agriculture and viniculture, research, public education, land stewardship and land acquisition across the Greenbelt.

Looking Ahead

While solid progress has been made on the environment, the Province recognizes that it needs to continue its work to sustain the high quality of life that Ontarians enjoy. This spring, the government will present a plan to establish a greener economy in Ontario, which addresses air quality and climate change.

SECTION F: EXPANDING OPPORTUNITIES FOR ECONOMIC GROWTH

OVERVIEW

A strong economy is the foundation of Ontarians' quality of life. Well-paying jobs are key to the prosperity and health of the province's families and communities.

In 2003, Ontario needed to improve its global competitiveness and was not investing in the skills and knowledge of its people.

Since taking office, the McGuinty government has pursued a balanced economic plan, investing strategically to strengthen the capacity of Ontario's people and businesses to compete in the global economy. By managing its own resources prudently and making needed investments in health care, education and infrastructure, the government has positioned Ontario as an innovative economy.

This Budget's initiatives build on the government's accomplishments through:

- **fostering a strong business climate** by proposing to accelerate the elimination of the capital tax to July 1, 2010 and reduce high Business Education Tax (BET) rates, and by continuing to modernize business and financial regulation

- **enhancing research and innovation** by providing support to innovation centres in Durham region, Kingston, Sudbury, Thunder Bay and Toronto

- **building a skilled workforce** through $390 million in additional investments to promote quality in postsecondary education; strengthening the recently launched nearly $1 billion per year Employment Ontario strategy by proposing the extension of the Apprenticeship Training Tax Credit; and increasing funding for the integration of new Canadians

- **investing in communities** by continuing the government's commitment to the Provincial-Municipal Fiscal and Service Delivery Review; doubling the Rural Infrastructure Investment Initiative; investing in transit infrastructure and affordable housing; and encouraging brownfield development

- **strengthening key sectors** by expanding access to advanced manufacturing funding and creating a new Ontario Manufacturing Council; providing ongoing support for forestry and agriculture; increasing funding for key cultural and tourism initiatives; and increasing training funding for small businesses.

These initiatives build on the government's progress, which includes:

- phasing out of the capital tax
- a $1.7 billion commitment to boost innovation and commercialization
- a 22 per cent increase in postsecondary enrolment since 2002–03
- Employment Ontario — a nearly $1 billion annual investment to provide seamless and coordinated training, apprenticeship and employment services
- an annual investment of $146 million to help new Canadians get settled and join the labour market
- an auto strategy that has attracted over $7 billion in total new auto investments
- $350 million leveraged from the private sector in advanced manufacturing investments
- ongoing support for key sectors such as forestry and agriculture.

A Changing Global Context: Fostering a Strong Business Environment

Maintaining a high standard of living in a world of increasing global competition is an ongoing challenge that will take the best efforts of the private sector, assisted by the government's contributions to a competitive business environment.

Competitiveness

Strengthening Ontario's competitiveness means creating a positive climate for business investment while ensuring that the government has the resources to invest in the people and future of the province. The overall cost of doing business in Ontario (including taxes paid by business) is lower than in most other major centres in North America and industrialized countries.[1]

Ontario's competitiveness stems from the skills and education of its workforce; the quality of its public infrastructure and health care; the overall quality of life; and the health of the environment.

[1] *Competitive Alternatives 2006, KPMG's Guide to International Business Costs*, www.competitivealternatives.com.

Expanding Trade Opportunities

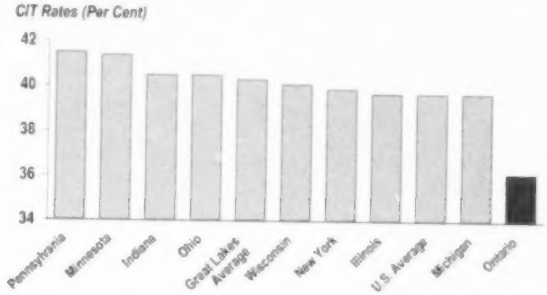
To help promote trade and competitiveness, the Ontario Government has undertaken a number of important initiatives, including expanding the number of Ontario international marketing centres in other countries. Premier Dalton McGuinty led a trade mission to India and Pakistan in January 2007 that resulted in the signing of numerous cooperation agreements, including several by universities, colleges and research organizations.

Ontario trade missions to Alberta are providing opportunities for Ontario manufacturers to build business relationships with the oil-sands sector.

Eliminating the Capital Tax in 2010

The government is taking steps to further enhance the competitiveness of Ontario's tax system. In 2004, it legislated a plan to gradually phase out Ontario's capital tax by 2012. Recognizing the importance of attracting new investment to the province, in this Budget the government is proposing legislation that would eliminate the capital tax sooner — on July 1, 2010. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity*.

Ontario Has Competitive Corporate Income Tax Rates — **Chart 14**



Note: Statutory combined general federal provincial/state corporate income tax rates for 2007. Averages weighted by manufacturing value added. Michigan CIT rate equivalent.
Source: Ontario Ministry of Finance.

Business Education Tax Reduction

The government is announcing a $540 million cut to high BET rates over the next seven years. This initiative will significantly enhance the competitive position of many Ontario businesses and strengthen the provincial economy overall. See Section B: *A Fair Property Tax System* for further details.

Building on Ontario's Innovation Advantage

Ontario's future prosperity depends more than ever on investment in research and innovation. Whether created in public institutions or the private sector, it is critical that new innovative ideas achieve their commercial potential in a manner that is beneficial to the Ontario economy.

The government has made a strong commitment to research and commercialization by investing $1.7 billion over five years to 2009–10, including $527 million for the Ontario Research Fund and $279 million for the Ontario Institute for Cancer Research. Highlights of new initiatives in this Budget include:

- $21 million for Queen's University, which is working with the private sector to build an advanced research and innovation centre specializing in bioprocessing and biomaterials
- $18 million for the Canadian Institute for Advanced Research, which is strengthening Canada's and Ontario's reputation for collaborative international research
- $15 million to the Ontario Centres of Excellence, whose Energy Centre is helping business and academia work together to bring energy innovation to market for a cleaner environment
- $15 million to the University of Toronto, which is advancing research in structural genomics — the study of human proteins to treat diseases such as cancer
- $6 million to Lakehead University in Thunder Bay, which is building its capacity to contribute to future innovation for the new northern economy and to the competitive and sustainable development of Ontario's boreal forest
- $3 million to the University of Ontario Institute of Technology, which is enhancing its ability to explore opportunities in hydrogen technology
- $2 million to the Northern Centre for Advanced Technology in Sudbury, which has a solid track record for helping northern Ontario companies bring innovative products to market.

Ontario universities and research hospitals continue to perform cutting-edge research. The Province's 24 colleges of applied arts and technology are also increasingly engaged in applied research and innovation activities. While their primary role is technical and applied education to meet industry needs, they have continued to expand their applied research and development (R&D) activity in collaboration with industry and community partners.

The government is committed to strengthening the conditions that support and reward innovation. Through its $160 million Ideas to Market strategy — announced in the 2006 Budget — the government is helping innovative companies develop and implement cutting-edge technologies that will strengthen Ontario's economic advantage.

The government is providing $20 million in 2006–07 to the University of Toronto, which is working to develop its capacity for interdisciplinary research on the creation of jurisdictional economic advantage. The university's efforts will also be supported by an additional $6 million per year in each of the next five years.

The Ontario Research and Innovation Council (ORIC) is a group of business and academic leaders formed to advise the Premier on Ontario's innovation agenda. Based on ORIC's recommendations and input from the broader research community, the Ministry of Research and Innovation released for consultation a draft strategic plan to strengthen innovation in Ontario. The government intends to release the results of this consultation, an Ontario Innovation Strategy, this spring.

Building an Innovative Economy through a Skilled Workforce

Knowledge and skills are among Ontario's most important competitive advantages. An estimated 70 per cent of jobs in the future will require postsecondary education. The government's economic plan therefore focuses on strengthening Ontario's knowledge and skills advantage.

Ontario faces difficult labour-market challenges in the coming years. Rapid technological change is reshaping jobs in all sectors of the economy at an unprecedented pace. At the same time, mature workers are retiring in large numbers and labour-force growth will slow.

Ontario is meeting these challenges and nurturing the full potential of its citizens through effective postsecondary education, creative employment integration initiatives for new Canadians, and a responsive training and employment strategy.

Ontario's investments to date include:

- a historic $6.2 billion investment in postsecondary education, through Reaching Higher; for further details on postsecondary education, see Section C: *Expanding Opportunities for Students*
- negotiating landmark federal–provincial agreements and new funding for employment, training and other services, including services for new Canadians
- modernizing and expanding the training system and launching Employment Ontario for easy access and more job opportunities
- improving training and job opportunities for new Canadians to help them use their skills in the labour market
- creating economic opportunity for at-risk youth, social assistance recipients and low-income workers through training and employment programs.

Modernizing and Expanding the Training System

A prosperous, knowledge-based economy needs skilled workers, which requires a strategy for effective and relevant skills training and other labour-market services. Through its employment and training strategy, the government also aims to improve economic opportunities for vulnerable Ontarians,

including the unemployed, the underemployed, new Canadians, low-income workers and social assistance recipients.

The centrepiece of Ontario's new approach is Employment Ontario, launched in January 2007. It will provide seamless and coordinated training, apprenticeship and other employment services. The Province has increased funding for its services to nearly $1 billion annually through the transfer of $525 million in resources under the Canada–Ontario Labour Market Development Agreement.

Through Employment Ontario, the number of people and businesses receiving services this year will grow from 500,000 to 900,000, and the number of service providers will grow from 470 to 1,200 — reaching all parts of the province. Job-threatened or laid-off workers will benefit from better coordination through a special Rapid Re-employment and Training Service. Workers, new Canadians and youth will have access to more flexible programs that support lifelong learning to meet changing workplace demands. Employers will have access to expanded services to help find the workers they need and encourage their investment in skills development.

Although the federal government has been slow to come to the table with the full amount of funding previously committed for labour-market training, Ontario has moved forward to expand its services to new clients and has made a number of innovative investments in priority areas. These include the introduction and extension of a tax credit for hiring apprentices; significant investments in bridge training and other labour-market integration services for new Canadians; and measures to assist at-risk youth, Aboriginal Peoples and many other Ontarians who face barriers but are ineligible for Employment Insurance.

Apprenticeship helps ensure that Ontario has skilled tradespeople and gives young people more opportunity. Several government initiatives increase access to apprenticeship, including a 25 to 30 per cent refundable Apprenticeship Training Tax Credit (ATTC) to encourage businesses to hire and train apprentices, introduced in 2004. This Budget proposes to extend the ATTC to eligible apprentices who start employment before January 1, 2012 and adds six more qualifying skilled trades. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity* for further details.

Expansion of Apprenticeship

- $100 million in annual funding for apprenticeship; on track to meet the annual goal of 26,000 new registered apprentices by 2007–08
- $4.5 million for 1,500 scholarships of $1,000 and employer signing bonuses of $2,000 to help at-risk youth enter apprenticeships
- $8.25 million for the Ontario Youth Apprenticeship Program, providing opportunity for 24,000 students in 2006–07, up from 12,700 in 2002–03
- proposed extension of the Apprenticeship Training Tax Credit and the addition of the following skilled trades: entertainment industry power technician; process operator–power; tractor-trailer commercial driver; exterior insulated finish systems mechanic; information technology call centre inside sales agent; and information technology call centre customer care agent.

The *2006 Economic Outlook and Fiscal Review* announced assistance to workers and communities most affected by slower growth in the economy through a targeted economic stimulus package. It includes over $20 million in 2006–07 to assist laid-off workers with training, job placement and other employment services. Rapid re-employment services are helping laid-off workers in such communities as London, Windsor, Smiths Falls and Nipigon.

Through programs that improve skills and provide other employment supports, Ontario is also helping social assistance recipients find jobs and fully share in the province's prosperity. For additional information, see Section A: *Expanding Opportunities for Children and Families.*

Success for Students is a key education policy that will ensure more Ontario youth graduate from high school with improved future job prospects and earnings. See Section C: *Expanding Opportunities for Students* for further details. In addition, the government is providing community-driven safety and employment initiatives for at-risk youth. These are discussed in Section A: *Expanding Opportunities for Children and Families.*

Breaking Down Barriers for New Canadians

New Canadians account for 29 per cent of Ontario's labour force. Their successful integration into the job market becomes increasingly important as they bring needed skills and international connections.

Ontario is investing $146 million annually in services and new programs to help newcomers get established and speed up their successful integration into the labour market.

In November 2005, Ontario negotiated the first-ever Canada–Ontario Immigration Agreement, providing $920 million over five years for settlement and language training. In 2006–07, the federal government committed $182 million to jointly planned services in Ontario.

The government will implement a pilot Provincial Nominee Program allowing Ontario to nominate individuals for permanent residence, based on its labour-market priorities. The government will be proposing legislation to assist in the implementation of this pilot. The Province is also negotiating a Temporary Foreign Workers annex with the federal government, to identify workers required to fill short-term skills needs.

Breaking Down Barriers: How Ontario Supports New Canadians

Better Information and Settlement Support

- Global Experience Ontario, a new resource centre to help new Canadians enter regulated professions
- a new web portal, www.ontarioimmigration.ca
- three new sites providing Employment Ontario services in Brampton, Markham and Toronto
- an ongoing public awareness campaign to promote services for newcomers
- a 29 per cent increase in funding, reaching $5.3 million, for the Newcomer Settlement Program, administered through 81 community settlement agencies.

Training and Job Access

- a new *Fair Access to Regulated Professions Act, 2006*
- a new Office of the Fairness Commissioner established and Jean Augustine nominated as first-ever Commissioner
- $53 million invested in over 90 innovative bridge-training programs
- $53 million annually for English as a Second Language/French as a Second Language classes
- expansion of programs that connect employers with newcomers
- $53 million in 2006–07 for the international medical graduates (IMG) program, up from $16 million in 2003
- a new six-month internship program in the Ontario Public Service and Crown agencies
- new loans of up to $5,000 to cover training, assessment, textbooks and exam costs.

Modern Business and Financial Regulation

Ontario is modernizing its business and financial regulation to maintain an attractive business climate, stay ahead of global markets and build on Ontario's economic advantage. A competitive regulatory framework protects consumers and investors, and supports a positive business climate and growing economy.

To help support a growth-oriented business environment, the Ontario Government:

- has passed the *Mortgage Brokerages, Lenders and Administrators Act, 2006*, which replaces the *Mortgage Brokers Act*, and has asked the Financial Services Commission of Ontario to develop new educational requirements in consultation with stakeholders
- is proposing amendments to the *Credit Unions and Caisses Populaires Act, 1994*, to modernize the regulatory framework so the sector can continue to compete effectively in the financial services marketplace; consequential amendments to other statutes are also proposed
- is proposing amendments to the *Pension Benefits Act* to permit categories of multi-employer pension plans to be established to, among other things, parallel certain categories of pension plans in the *Income Tax Act* (Canada)

- has established an Expert Commission on Pensions to review pension plan funding requirements, consult with Ontarians and make recommendations to ensure the Province's employment pension system remains sustainable

- has passed legislation to allow Ontario farm mutuals and other Ontario-incorporated insurers to operate under investment and corporate governance rules similar to those at the federal level and is proposing to implement these changes this year; as a result of changes made to the *Insurance Act*, consequential and technical amendments are proposed for several statutes

- is investing $0.5 million annually starting in 2007–08 through the Ministry of Economic Development and Trade, to streamline approval processes and modernize the regulatory regime, making it more efficient and effective for business

- has implemented the *Securities Transfer Act, 2006* to update Ontario's laws on the transfer of securities held in electronic form

- has signed a memorandum of agreement with the federal government that would transfer administration of Ontario's corporate income tax and capital tax to the Canada Revenue Agency, effective for taxation years ending after 2008. Enabling legislation, if approved, would lead to one tax form, one tax administration and one set of tax rules. Corporations would save $90 million annually in Ontario corporate income tax and up to an additional $100 million annually in compliance costs. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity* for additional information

- is working with its partners to offer a wide range of government information for business through ServiceOntario — improving access to important information, government forms and services, including registering, changing and searching for information; see Section H: *Expanding Opportunities through a Modern and Efficient Government*

- is engaging other jurisdictions to move to a common securities regulator

- is streamlining securities regulation by working to expand harmonized approaches across jurisdictions, pending a common securities regulator; the government is proposing measured reforms to the *Securities Act* in relation to the regulation of takeover bids and issuer bids, prospectus disclosure requirements and other technical changes

- is protecting investors through implementing civil liability for secondary-market disclosure, more robust corporate and investment fund governance, and enhanced financial reporting

- has approved new securities rules to ensure more timely processing of securities trades in our capital markets. Completing trades in a tighter timeframe will mean more efficient markets and reduced financial system risk.

Sharpening Canada's Competitive Edge through a Common Securities Regulator

Efficient capital markets are critical to underpin strong economic performance in today's global economy.

In Canada's relatively small equity market, only 16 per cent of public companies benefit from access to investors in all provinces. Fragmented regulation makes it unduly difficult and costly for the rest, including many small companies, to raise money.

Canada's current framework of 13 provincial and territorial securities regulators administering 13 sets of securities laws fosters duplicative, inconsistent and burdensome regulation.

Recent reports have noted the success of principles-based regulation in the United Kingdom. Calls for a similar regulatory approach in U.S. capital markets underscore Canada's need for a responsive regulation framework that can keep pace with the competitive global economy. A common securities regulator would help drive change and develop a coherent Canadian response to providing sound investor protection while facilitating the raising of capital.

Canada needs a common securities regulator to fully realize its economic growth opportunities. Gerry Phillips, as the Minister responsible for securities regulation, will continue to spearhead Ontario's leadership role in moving towards a common securities regulator.

The government is committed to strengthening Canada's economic union by eliminating barriers to interprovincial economic activity, and is studying the merits of the 2006 Alberta–British Columbia Trade, Investment and Labour Mobility Agreement.

Investing in Strong Communities

Ontario's ability to provide a high quality of life and seize opportunities for prosperity depends on diverse communities where individuals, businesses and governments interact. The government is promoting strong and adaptable communities by investing in strategic infrastructure projects, improving health and education resources, fostering a positive business climate, and working with them to address unique local challenges.

The government will continue to make investments in local communities and regions across the province and work with municipal partners to determine the best approach to funding and delivery of high-quality programs and services for citizens.

Provincial–Municipal Fiscal and Service Delivery Review

The Province and municipalities are undertaking a review of the provincial–municipal relationship aimed at identifying a new fiscal and service delivery partnership for the 21st century.

A report will be released in the spring of 2008, and will include recommendations for next steps and implementation. The government is committed to the Review, which will set the stage for a sustainable approach for both orders of government to deliver and fund services in Ontario in the 21st century.

A website outlining the Review's progress and seeking public input can be accessed through the Ministry of Municipal Affairs and Housing at www.mah.gov.on.ca.

Support for Communities

The government is announcing a plan to cut high BET rates by $540 million. The economic benefits of these cuts will be widespread and result in increased investment, jobs and productivity. See Section B: *A Fair Property Tax System* for further information.

The government is also announcing a plan to phase out Greater Toronto Area pooling, which will eliminate the $200 million burden that this program places on the municipal property tax bases of contributing municipalities. For more details, see Section B: *A Fair Property Tax System.*

In 2006–07, Ontario will invest $277 million for transit infrastructure, distributed to municipalities on the basis of transit ridership. Ontario will also provide $75 million to municipalities, also to be distributed on the basis of transit ridership, for public transit capital.

To assist low-income families, the government proposes to immediately provide $127 million to municipalities for new affordable housing or to rehabilitate existing housing.

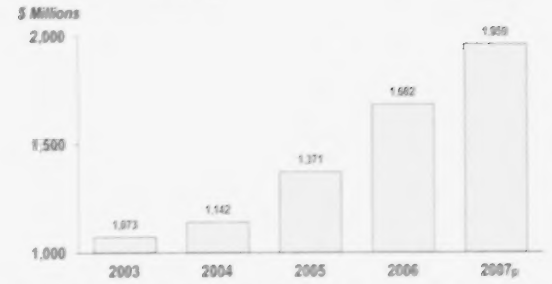
Municipalities would also benefit from the proposed Ontario Child Benefit (OCB). The Province would pay the entire cost of the OCB, including its administration. This will save municipalities $15 million annually in social assistance costs when the OCB is fully implemented in July 2011. Moreover, enhancements to the OCB in the future would not create new costs for municipalities.

The government is announcing a comprehensive reform package that would, if passed, address the regulatory and liability barriers to brownfields redevelopment and help protect the public interest. The government is providing $11 million to Hamilton, Cornwall, Brantford, St. Catharines and the University of Ottawa. See Section E: *Expanding Opportunities for a Greener Ontario* for further details.

In 2007, through the following initiatives, the government is investing more than $1.9 billion in ongoing operating support to municipalities:

- the Ontario Municipal Partnership Fund (OMPF), which will transfer $843 million in 2007, or $225 million more than 2004 transfers under its predecessor program, the Community Reinvestment Fund (CRF)

Ongoing Operating Support to Municipalities Is Increasing — **Chart 15**



Includes funding provided to municipalities through OMPF, CRF, provincial gasoline tax, land ambulance and public health.
p = projected.
Sources: Ontario Ministries of Finance, Transportation, and Health and Long-Term Care.

- making two cents per litre of provincial gasoline tax available for public transit. In 2007, $313 million is being distributed to 86 transit systems that provide service in 104 communities across the province, for a total of more than $1.6 billion by 2010
- increasing the Province's share of public health funding from 50 per cent in 2004 to 75 per cent in 2007
- moving towards a 50:50 sharing of the cost of municipal land ambulance services by 2008.

In addition, the following initiatives implemented since 2003 exemplify the Province's commitment to building strong communities through new, more effective partnerships with municipalities:

- investing $1.2 billion in public transit, roads and bridges through Move Ontario, which includes $400 million in 2006 for municipal roads and bridges, with an emphasis on rural and northern communities; see Section G: *Investing in Ontario's Infrastructure*
- providing a predictable source of funding for the renewal of municipal bus fleets
- contributing $298 million towards the $900 million Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF); see Section G: *Investing in Ontario's Infrastructure*
- the *City of Toronto Act, 2006*, which sets out a broad, permissive legislative framework for Toronto
- the *Municipal Statute Law Amendment Act, 2006* — providing local governments with broad new powers and legislative freedoms that allow municipalities to better deliver services to their communities
- the *Planning and Conservation Land Statute Law Amendment Act, 2006*, which reforms the Ontario Municipal Board and enhances community participation in local planning.

Healthy and vibrant urban areas are key to the Province's global competitiveness and, increasingly, are also where most Ontarians live and work. They offer large markets and populations, institutions, facilities and infrastructure that support diversification, efficient knowledge transfers, and a large and diversified workforce.

Community Justice

The government is committed to making Ontario's communities safer and is providing more than $3 billion annually for the Justice Sector, primarily for prosecuting crime and for court services, legal aid, policing and correctional facilities. This funding will continue to strengthen communities, increase access to frontline services and enhance community safety.

In this Budget, the government is also announcing additional funding, starting in 2007–08, of $27 million for key initiatives that include:

- $15 million for Legal Aid Ontario, primarily to provide additional legal services for vulnerable Ontarians, including women and children, to increase the legal aid tariff rate and address the impact of guns/gangs cases
- $4 million to promote a healthier and more diversified correctional services workplace
- $4 million for 30 new justices of the peace to assist municipalities in addressing backlogs relating to *Provincial Offences Act* matters
- $3 million to modernize the human rights system, including additional funding for legal services through a new Human Rights Legal Support Centre and funding for public education, public advocacy and research
- $1 million for a one-year pilot project in Stratford to target producers and traffickers of methamphetamine (crystal meth) and dismantle their labs.

Justice Sector spending will continue to be focused on strengthening communities, improving frontline services and building stronger, safer communities.

This new funding builds on the $51 million announced in 2006 for the Enhanced Anti-Gun and Gang Violence Strategy, which included funding to help police and prosecutors investigate and prosecute gun crimes.

Strong Rural Communities

The government is making strategic investments that will help rural communities foster partnerships and pursue innovative approaches to challenges and opportunities. These investments promote vibrant rural communities through better health, a greener environment, success for rural students, improved infrastructure and support for key sectors. For example, Ontario recognizes the important role of the farming and food processing sector through investments in market development, skills training and farm income stabilization.

In the 2007–08 fiscal year, base expenditures by the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) will reach a new high of $876 million.

New initiatives announced in this Budget include:

- investments in rural infrastructure, such as an additional $70 million for the Rural Infrastructure Investment Initiative — doubling the $70 million announced in September 2006 — and $10 million to help expand broadband coverage in rural southern Ontario by leveraging community and private-sector investments; see Section G: *Investing in Ontario's Infrastructure*

- the $540 million plan to cut high BET rates. Businesses in rural municipalities will benefit from an average 26 per cent reduction in provincial business education taxes by 2014.

In 2007, rural municipalities will receive $472 million through the Ontario Municipal Partnership Fund (OMPF).

Ontario's Rural Plan, "Strong Rural Communities: Working Together for Success," first published in 2004, outlines a framework under which the Province and rural municipalities can partner to support sustainable rural economies. On February 26, 2007, Ontario released its second progress report on the Rural Plan. It highlighted examples of recent investments, such as:

- investments in rural youth through the Rural Summer Jobs Service program; in 2006, more than 3,600 students, aged 14 to 24, gained valuable experience and work skills from community employers with the help of this program

- $28.2 million, since 2004, through the Rural Economic Development Program to help communities complete local economic development projects

- significant investments in rural infrastructure in 2006, with $188 million under Move Ontario for roads and bridges; and $85 million for repairs and renovations in schools under the Good Places to Learn renewal initiative.

A Strong Northern Economy

The government is working with northerners to create a dynamic future for the region by investing in initiatives that build on its rich resource base; and in health, education, youth, infrastructure and northern businesses.

Northern communities and businesses are committed to transforming the region's economy and realizing its potential. This Budget announces strategic investments to support these efforts and build the foundation for the region's new economy, including:

Northern Employment on the Rise

Over the past year (February 2007 compared to February 2006), employment in northern Ontario increased by 12,900 jobs despite the negative effects of the high Canadian dollar and restructuring in the forest products sector.

Sources: Statistics Canada and Ontario Ministry of Finance.

- $2 million to the Northern Centre for Advanced Technology in Sudbury
- $6 million to Lakehead University, which is building expertise in the bioeconomy related to the boreal forest and is positioned to make even more significant contributions to the new northern economy; see Section E: *Expanding Opportunities for a Greener Ontario*
- providing an additional $3.6 million in 2007–08 to increase the operating subsidy of the Ontario Northland Transportation Commission (ONTC) to $19.7 million; this will allow ONTC to improve rail service
- the $540 million plan to cut high Business Education Tax (BET) rates. Businesses in northern municipalities will benefit from an average 32 per cent reduction in provincial business education taxes by 2014.

In addition, Ontario will continue to work with the federal government, the Northern Ontario Heritage Fund Corporation (NOHFC) and other partners to establish the Molecular Medicine Research Centre in Thunder Bay.

Northwestern Ontario business and community organizations are working together to build a prosperous future in the face of restructuring in key sectors. The government will appoint an economic facilitator to engage in discussions with local stakeholders and governments at all levels to help the northwest find solutions to their challenges and build a successful future.

These investments build on existing government initiatives in northern Ontario, such as:

- $1.8 billion, through ReNew Ontario, for the renewal and expansion of highways in northern Ontario; key projects include the widening of Highways 11 and 69 to North Bay and Sudbury

respectively; building a new Highway 11/17 corridor west of Thunder Bay; and widening Highway 17 to four lanes east of Sault Ste. Marie

- $283 million through the Ontario Municipal Partnership Fund in 2007 to support northern communities

- ongoing investments of the NOHFC, which works with northern entrepreneurs and businesses to foster private-sector job creation

  - in January 2007, the NOHFC announced a renewed focus for its Emerging Technology Program to encourage investment in projects aimed at bringing broadband Internet and cellular service to most of the north within three years

- the Northern Ontario School of Medicine, which opened in 2005 and is the first new medical school to open in Canada in over 30 years

- $15 million to support geological mapping, which will help open the mining potential of the Far North

- $10 million to support the launch of the new Centre for Excellence in Mining Innovation at Sudbury's Laurentian University

- $4 million to establish a Bio-Energy Research Centre in Atikokan

- $2.2 million funded by the NOHFC towards the development of the Thunder Bay Cancer and Cardiac Research Centre

- Go North's Communities Investment Readiness program, which has provided funding to 31 initiatives for the development of community tools to attract investors. Participating municipalities include North Bay, Timmins, Sault Ste. Marie, Thunder Bay and Sudbury.

Aboriginal Peoples

The government is working on initiatives to close the socioeconomic gap between Aboriginal Peoples and other Ontarians.

- In June 2006, the government released draft guidelines for ministries on consultation with Aboriginal Peoples related to rights and treaty. This Budget includes $7 million to support the government's capacity to engage in productive consultations with Aboriginal Peoples.

- The government launched the Aboriginal Education Strategy, investing $13 million to improve achievement by First Nations, Inuit and Métis students.

- The government is allocating $80 million to housing for Aboriginal Peoples living off reserve; see Section A: *Expanding Opportunities for Children and Families.*

- The Province is investing $2 million to support the implementation of "Keeping the Land, a Land Use Strategy" for the Whitefeather Forest in Ontario's Far North, in collaboration with the Pikangikum community. Keeping the Land has been created in good faith between Pikangikum First Nation and the Government of Ontario. Rooted in mutual respect for the aspirations of both partners, this strategy provides guidance for future land use activities in the Whitefeather Forest and adjacent areas.

The First Nation community of Attawapiskat will benefit from the construction of Ontario's first diamond mine and from the creation of 375 full-time jobs once the facility begins operations in the spring of 2008.

A Strategy to Further Boost Jobs and Economic Renewal

The slowdown in economic growth in the second half of 2006 prompted the government to provide additional assistance to laid-off workers and accelerate infrastructure investments to promote job creation in areas of the province most affected. In its *2006 Economic Outlook and Fiscal Review*, the government allocated over $190 million in new funding to strengthen the economy in four areas.

Economic Stimulus in the *2006 Economic Outlook and Fiscal Review*

Providing Focused Training and Job Services – over $20 million

- sending special rapid re-employment teams into communities where plants have closed to help develop action plans for affected workers
- providing customized training, skills upgrading, job placement and job relocation services
- providing workplace literacy programs to help workers learn new processes and technologies
- helping laid-off apprentices find new placements and accelerate their in-school learning
- funding additional bridge training programs for new Canadians.

Fast-Tracking Infrastructure Investments – nearly $150 million

- fast-tracking a number of infrastructure investments, generating immediate economic activity and job creation.

Encouraging Ontario Tourism – $22 million

- supporting conventions, festivals and events in the province, and introducing a new campaign to encourage Ontarians to travel and vacation in Ontario, boosting economic activity and tourism-related jobs.

Strengthening Interprovincial Trade

- strengthening interprovincial trade links to match industrial needs in Alberta with industrial capacity in Ontario, and exploring the merits of the Trade, Investment and Labour Mobility Agreement (TILMA) between British Columbia and Alberta.

While these investments were designed to target affected families and communities, the initiatives have bolstered the province's overall economic performance and fast-tracked social, community and economic capital investments to deliver immediate jobs and build vital infrastructure.

Through this strategy, the government has funded over 3,000 social infrastructure projects that benefit vulnerable populations. Capital investments also included funding for over 20 courthouse and coroner's offices, over 10 citizenship organizations, and nearly 35 municipal organizations such as community recreation facilities, heritage facilities, art galleries, museums, libraries, and water and wastewater treatment facilities. Fifteen colleges, including nine located in northern and eastern Ontario, have benefited from funding to improve their facilities while creating local jobs. Rapid re-employment teams have stepped in to help laid-off workers in communities such as London, Windsor, Smiths Falls and Nipigon.

New funding has supported Ontario festivals and events and a new campaign to market Ontario travel destinations to Ontarians.

In this Budget, the government is further supporting the infrastructure needs of the province, accelerating capital investments, building on Ontario's economic strengths and addressing government priorities. For more details, see Section G: *Investing in Ontario's Infrastructure* and for investments in vulnerable populations, see Section A: *Expanding Opportunities for Children and Families*.

Enhancing Growth in Ontario's Industrial Sectors

The composition of Ontario's economy continues to evolve, responding to changes in technology, demand and competition, and reflecting long-term trends similar to other developed economies. While employment and output have grown on the goods-producing side of the economy, the services sector has experienced much faster growth — increasing its role and contribution to Ontario's employment and output.

Ontario's investments in infrastructure, postsecondary education and training, and innovation form the critical foundation on which all sectors can build capacity to add value and improve competitiveness. The government has also undertaken strategic initiatives to help Ontario sectors in their transition to higher-value-added production and increased competitiveness.

Supporting Ontario's Small Business Sector

Small and medium-sized businesses are an important part of the Ontario economy, accounting for nearly 60 per cent of employment in the province. The government is committed to encouraging a dynamic and entrepreneurial small business sector.

Over 500,000 businesses across the province will benefit from the reductions in high BET rates. Ninety-seven per cent of these are small businesses.

By 2008, capital tax will be eliminated entirely for more than 14,000 additional small and medium-sized businesses.

In 2006–07, the government is providing $2.2 million to the Canadian Youth Business Foundation — an organization that helps provide start-up mentoring, financing and business resources to young Canadians, ages 18 to 34, to create their own successful businesses.

To help reduce tax compliance costs for business, Ontario and the federal government have signed an agreement that would transfer administration of Ontario's corporate income tax and capital tax to the Canada Revenue Agency. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity* for additional information.

Tax Measures to Help Small Business

- the $540 million plan to cut high Business Education Tax (BET) rates
- the small business deduction, which reduces Ontario's general corporate income tax rate for small Canadian-controlled private corporations (2006): $900 million
- the Employer Health Tax exemption for businesses with fewer than 50 employees (2006): $590 million
- Ontario's capital tax deduction and an exemption from capital tax for credit unions, caisses populaires, family farm corporations and family fishing corporations (2006): $300 million
- a 10 per cent refundable tax credit for small corporations performing R&D in Ontario (2006): $180 million.

The Province's array of apprenticeship and skills training programs address potential skills shortages, and it is taking further measures to expand Ontario's skilled labour supply. The new Ministry of Small Business and Entrepreneurship, created in May 2006, is helping to promote the success of small and medium-sized businesses in Ontario. It will also help encourage and promote the entrepreneurial spirit and skills that are vital to the future prosperity of the province.

Manufacturing

Ontario's manufacturing sector is the second largest in North America after California. At present, some of Ontario's manufacturing industries face serious competitive challenges from lower labour-cost jurisdictions while adjusting to a stronger Canadian dollar and higher energy costs.

To expand the economic benefits leveraged through the Advanced Manufacturing Investment Strategy (AMIS), the Ontario Government will lower the investment project-size threshold for loan applications to a minimum of $25 million or 100 jobs created or retained. This will enable more small and medium-sized manufacturers to participate.

The government recognizes that predictable and stable electricity prices enhance the competitiveness of Ontario's manufacturing sector as well as other sectors. This includes initiatives to secure the province's electricity supply as well as pricing measures such as the price regulation of Ontario Power Generation's

(OPG) nuclear and large hydroelectric assets and a transitional revenue limit on most of OPG's output from the rest of its generating stations. See Section G: *Investing in Ontario's Infrastructure* for further details.

The government appreciates the challenges that manufacturers face and how difficult it has been for employees facing job loss or uncertainty. In response, it is providing support for affected workers including retraining, job search assistance and vocational counselling.

Advanced Manufacturing Investment Strategy: Supporting Modernization, Innovation and Energy Efficiency

The Advanced Manufacturing Investment Strategy (AMIS) is providing $500 million in loans to encourage manufacturers to invest in leading-edge technology and processes that will attract investment; reduce waste, energy and environmental emissions; and create jobs.

To date, about $34 million in AMIS loans have leveraged almost $350 million in private-sector investment, creating and retaining 2,700 jobs.

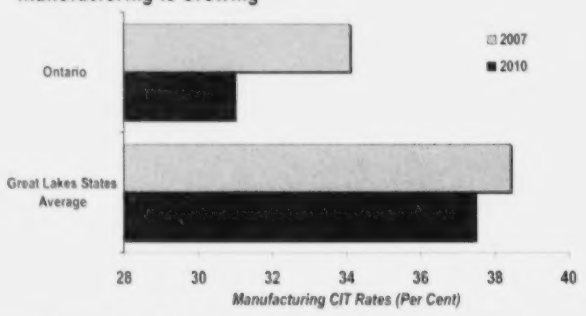
Manufacturers receiving AMIS funding to date include various industries and areas of the province:

- Diamond Aircraft Industries in London; Messier-Dowty Inc. in Ajax; Procter and Gamble Inc. in Brockville; FAG Aerospace Inc. in Stratford; Flakeboard in Sault Ste. Marie; Koolatron in Brantford; and Roxul in Milton.

The third round of calls for proposals from manufacturers for AMIS funding will close on April 12, 2007.

Low corporate income tax rates (CIT) for manufacturers keep Ontario competitive with neighbouring jurisdictions, offering additional support for the sector. Ontario's combined federal-provincial CIT rate for manufacturers is currently more than four percentage points below the average combined federal–state rate in the U.S. Great Lakes States. As well, once the phased-in federal income tax rate cuts in both Canada and the United States are fully implemented, the combined CIT rate for manufacturers in Ontario will be over six percentage points lower than the combined average rate for manufacturers in the U.S. Great Lakes States. That, together with the proposed accelerated elimination of the capital tax and the $540 million cut in high BET rates, would make for a tax system that contributes to a positive investment climate for the manufacturing sector. The agreement to transfer administration of Ontario's corporate income tax and capital tax to the Canada Revenue Agency would also benefit the manufacturing sector. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity* for further details.

Ontario's Tax-Rate Advantage for Manufacturing Is Growing — Chart 16



Notes: Statutory combined federal–provincial/state corporate income tax rates.
Averages weighted by manufacturing value added.
Source: Ontario Ministry of Finance.

This Budget is announcing the creation of a new Ontario Manufacturing Council that will provide regular updates to the Minister of Economic Development and Trade on the state of this key economic sector.

Tax Measures that Benefit Ontario's Manufacturing Sector

- a $540 million plan to cut high Business Education Tax (BET) rates
- a five per cent rate cut in Ontario's capital tax beginning in 2007
- a proposal to accelerate the elimination of the capital tax to July 1, 2010
- a doubling of the non-capital loss carry-forward period from 10 to 20 years
- a corporate income tax (CIT) rate that is two percentage points below the general CIT rate
- a 25 per cent refundable tax credit for hiring apprentices; 30 per cent for small businesses
- corporate tax incentives for R&D, including a proposed 4.5 per cent non-refundable tax credit for taxation years ending after 2008
- a retail sales tax (RST) exemption for production machinery and equipment, reinforced concrete used to make production machinery and equipment, and materials incorporated into goods for sale.

The need for advanced manufacturing and innovation is particularly important in the auto sector. The Province recognizes it must continue to work with key auto industry players to develop the automotive products of the future.

Ontario Automotive Investment Strategy (OAIS)

Ontario's strategic investments, including the $500 million Ontario Automotive Investment Strategy (OAIS), have attracted over $7 billion in investments supporting skilled, high-paying jobs:

- General Motors: Oshawa, St. Catharines, Ingersoll — $2.5 billion
- Linamar: Guelph — $1.1 billion
- Toyota: Woodstock — $1.1 billion (first Ontario greenfield auto plant in almost 20 years)
- Ford: Oakville — $1 billion
- DaimlerChrysler: Windsor, Brampton — $768 million
- Navistar: Chatham, Windsor —$270 million
- Honda: Alliston — $154 million
- Nemak: Windsor — $100 million
- Valiant: Windsor — $93 million.

Resource Industries

Mining

Ontario's dynamic mining industry is recognized throughout the world. Some of the earth's richest deposits of nickel, gold, copper and silver have been discovered in the province. Recently, De Beers Canada started construction towards opening Ontario's first diamond mine near Attawapiskat, with a planned total capital investment of $982 million.

This Budget proposes to introduce a royalty on diamonds that will be competitive with other Canadian diamond-mining jurisdictions. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity*.

The mining industry is enjoying an exceptional boom and has a bright future, owing to robust global demand. In 2006, Ontario produced roughly $9.4 billion in metals, non-metallic minerals and aggregates. In addition, Toronto is one of the world's premier centres of mining finance, with over 1,200 mining companies listed on the TSX Group's Toronto-based stock exchanges.

Competitive Tax Regime Supports Ontario's Mining Sector

- a three-year mining tax holiday on the first $10 million of profits generated by a new mine or a major expansion of an existing mine
- a 10-year mining tax holiday on the first $10 million of profits generated by a new mine opened in a remote Ontario location
- a reduction in the Ontario mining tax rate from 10 to 5 per cent for new remote mines in Ontario
- a 25 per cent "resource allowance" deduction for corporate income tax purposes
- to help mineral exploration companies raise capital, Ontario offers a 100 per cent flow-through share deduction for personal income tax purposes
- a five per cent refundable Ontario tax credit for eligible mineral exploration expenses.

Mineral exploration in Ontario roughly tripled between 2001 and 2006, helping to identify new reserves and extend the life of existing mines.

Since 2003, the Ontario Government has worked to support the mineral sector through initiatives to attract investment in exploration and mining, including:

- launching Ontario's Mineral Development Strategy to enhance the sector's global competitiveness, while creating new opportunities for Ontarians
- investing $60 million over six years for the cleanup of abandoned mines to protect the public and the environment
- committing $15 million, over three years, for geological mapping in the Far North

- investing $10 million to help establish the Centre for Excellence in Mining Innovation at Laurentian University in Sudbury
- helping create the Ontario Mineral Industry Cluster Council.

Forest Products Sector

Ontario's forest products sector is vital to the province's economy, particularly in northern Ontario, where it provides employment for close to 25,000 people and is the mainstay of many communities.

Global demand for wood and paper products continues to grow at a healthy rate and Ontario has many experienced workers, close proximity to key markets and a large resource base. Nevertheless, the industry is restructuring in the face of a number of challenges: a strong Canadian dollar; increasing supplies of low-cost plantation-grown fibre abroad; a slowing U.S. housing market; and weakening North American demand for newsprint and office papers.

Since 2005, the government has announced more than $1 billion in assistance for the forest products sector, to help lever investments and improve its competitiveness.

As well, the refund of softwood lumber duties under the Canada–U.S. Softwood Lumber Agreement should help improve the situation of mills that were affected negatively by the softwood dispute.

Agriculture

Ontario has the largest agriculture sector in Canada, employing about 100,000 people in 2006. The sector is highly diversified and benefits from proximity to markets, a favourable climate and good soils.

Like other sectors, farming is adapting to competitive challenges in a rapidly changing global marketplace.

Over $1 Billion in Forest Products Sector Support Announced by Ontario

- $350 million in loan guarantees to stimulate new investments in value-added manufacturing, energy conservation and energy co-generation
- $150 million in Forest Sector Prosperity Fund grants to leverage new capital investments in various areas
- $140 million in electricity price rebates for northern Ontario pulp and paper mills that purchase a minimum of 50,000 megawatt hours annually and commit to increased energy efficiency
- $75 million annually for the construction and maintenance costs of primary and secondary forest access roads
- $70 million in a one-time stumpage fee refund for 2005–06
- $10 million annually by 2007–08 to enhance the Forest Resource Inventory
- $3 million annually for three years in reduced stumpage fees for poplar veneer and white birch
- $1 million annually beginning in 2006–07 for an Ontario Wood Promotion program to enhance value-added manufacturing.

The Province is therefore working to maintain a strong, sustainable farm sector. In the 2007–08 fiscal year, base expenditures by the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) will reach a new high of $876 million.

Ontario is helping farmers open new markets and enhance their presence in existing markets.

The use of farm and forest products in the auto sector is an emerging area of opportunity in the bioeconomy. The government is providing $6 million in 2006–07 to the Ontario BioAuto Council, a multi-industry initiative to position the province as a global leader in manufacturing auto parts and other materials from agricultural and forestry feedstocks. This builds on the Premier's announcement on March 8, 2007, of an investment of over $5.9 million in the Ontario BioCar Initiative, a research project to turn Ontario's harvest into viable materials for the auto industry.

The government is also providing $2.5 million to a number of Ontario agri-food organizations that fund marketing initiatives for Ontario farm products, and $200,000 to the Organic Council of Ontario, which promotes industry development activities. Going forward, Ontario will provide $10 million for a strategy to raise consumer awareness and promote consumption of food produced in the province.

The Premier's announcement in 2006 of a $185 million investment in rural Ontario included new funding for the Canadian Agricultural Income Stabilization program, which will bring total OMAFRA expenditures for farm income stabilization and support to more than $1 billion over the 2003–04 to 2006–07 fiscal years. Ontario farmers also receive favourable treatment under a number of taxes.

As well, as part of the broader rural community, the farm sector benefits from a number of other government programs. Ontario's efforts to encourage ethanol production is one example. On January 1, 2007, Ontario's Renewable Fuels Standard came into effect, requiring an average of five per cent ethanol in gasoline. To complement this initiative, the government is providing $520 million over 12 years in capital and operating assistance to encourage increased ethanol production in Ontario.

Another example is the government's commitment to the development of renewable sources of electricity generation and efforts to encourage renewable energy production through programs such as net metering and the standard offer program. See Section D: *Expanding Opportunities for a Greener Ontario* for further details.

The first recipients of the Premier's Award for Agri-Food Innovation Excellence — reported in the 2006 Ontario Budget to recognize innovation in agriculture with awards totalling $2.5 million over five years — were announced at the Premier's Agri-Food Summit on March 8, 2007.

- The $100,000 Premier's Award of Excellence for Agri-Food Innovation went to David VanderDussen. Mr. VanderDussen developed Mite-Away II, an environmentally friendly product, which is exported around the world, to protect honeybees from mite infestations.

- The $50,000 Minister's Award was presented to Fritz and Paul Klaesi, who pioneered the use of technology that generates electricity from manure.

Highlights of Ontario Support for Farmers

- OMAFRA Expenditures for Farm Income Stabilization and Support[1] (2003–04 to 2006–07): $1.12 billion
- Farm Property Class Tax Rate Reduction[2] (2006): $300 million
- Retail Sales Tax Exemption for Agricultural Goods (2006): $250 million
- Fuel Tax Exemption for Coloured Fuel Used in Farm Equipment (2004): $43 million
- $500,000 Lifetime Capital Gains Exemption (2006): $45 million
- Value to Farm Corporations of Small Business Corporate Income Tax Rate (2006): $27 million
- Expected OMAFRA Expenditures for Agricultural Drainage Infrastructure Management (2006–07): $6.5 million
- Expected OMAFRA Expenditures for Nutrient Management Assistance (2006–07): $5.6 million
- Land Transfer Tax Exemption for Transfers of Farm Land between Family Members (2006): $5 million.

[1] Four-year total for the 2003–04 to 2006–07 fiscal years using expected expenditures for 2006–07.
[2] Includes both municipal and education portions.
Sources: Public Accounts of Ontario 2003–04 to 2005–06; *2005 Ontario Economic Outlook and Fiscal Review, Background Papers*; Tax Expenditures and Evaluations 2005, Department of Finance Canada; Statistics Canada data and Ontario Ministry of Finance estimates.

Ontario's Knowledge-Based Service Sectors

When it comes to creating high-value-added jobs that contribute to Ontario as a knowledge economy, services industries continue to grow in importance and account for over half of all private-sector jobs. A broad range of services industry jobs in the private sector generate higher wages than in manufacturing. They include high-value-added sectors such as professional business services, financial services, information and communications technology (ICT) services, and entertainment and creative industries.

Business and Financial Services

Business services and financial services are Ontario's two largest internationally competing sectors when measured by employment, followed by auto manufacturing, according to the Institute for Competitiveness and Prosperity. These fast-growing sectors employ almost one million Ontarians.

- Toronto led all North American cities in the creation of financial-sector jobs over the past five years, growing on average by over five per cent annually. Toronto is the third-largest financial services centre in North America after New York City and Chicago, based on employment.

- The Toronto region is home to just under 1,000 business head offices — almost twice as many as in Montreal and almost three times as many as in Calgary. Its position as the nation's business and financial capital is helping support strong job growth in these sectors.

- Employment in professional business services, such as advertising and accounting, grew strongly in 2006, and generated high wages.

Ontario continues to support the growth of business and financial services in many ways, including public investments in skills, education, modern infrastructure, and a competitive tax and regulatory climate.

Information and Communications Technology

The information and communications technology (ICT) services sector, led by computer software and telecommunications, plays a major role in supporting a new generation of economic growth. It includes many leading technology companies, and is a major source of innovation and new information technologies for other sectors.

Access to broadband and other telecommunications services is fundamental to allowing Ontario's businesses to become more efficient and reach new markets, and indeed to transform their operations and move to the next level. Broadband access is fundamental to enabling citizens to access government services, buy goods and services efficiently, do online banking, or simply reach out to family and friends. The ICT sector has already brought high-speed Internet access to 93 per cent of Ontario's population.

The government is investing to bring broadband access into more communities in northern and rural areas. It is investing $10 million in 2007–08 to help expand broadband coverage in rural southern Ontario by leveraging community and private-sector investments. In January 2007, the NOHFC announced that it will be encouraging investments in projects aimed at completing broadband Internet and cellular service coverage for most of the north within three years.

Ontario continues to support the ICT services sector through a wide range of investments and policies that further develop the knowledge economy. These include postsecondary education and skills development; support for R&D and innovation; and a modern and competitive business, tax and regulatory climate.

Entertainment and Creative Cluster

Ontario's entertainment and creative cluster has also experienced significant employment growth. Between 1996 and 2006, this sector created almost 76,200 net new jobs in Ontario, or an increase of 38 per cent, compared with 25.7 per cent in the overall Ontario economy. It includes such industries as film and television production, sound recording, book and magazine publishing, and new media (for example, digital special effects and interactive products such as video and computer games). It also includes independent artists, authors, musicians and filmmakers. The vibrancy and economic health of these industries and artists help make Ontario an attractive place to live, work and invest.

To help Ontario's entertainment and creative industries take advantage of growing market opportunities, the government offers numerous tax incentives and is investing in several initiatives.

To recognize the contributions that artists make to Ontario's economy and quality of life, the government proposes to introduce new legislation: the Status of Ontario's Artists Act, 2007. This will be an important step towards bringing artists the profile and recognition that they deserve at the provincial level as well as in their local communities. This legislation will help us retain the skills and talents of Ontario's artists, while empowering them to continue transforming our cultural industries, economy and society into innovation-based world leaders.

Tax Incentives for Ontario's Entertainment and Creative Cluster

- 30 per cent tax credit for domestic film and television productions
- 18 per cent tax credit for foreign and non-certified domestic film and television productions
- 20 per cent tax credit for creating computer animation and special effects for film and television productions
- 20 to 30 per cent tax credit for creating, marketing and distributing interactive digital media products
- 30 per cent tax credit for publishing and promoting literary works by new Canadian authors
- 20 per cent tax credit for producing and marketing sound recordings by emerging Canadian artists or groups.

The government will increase its annual funding to the Ontario Trillium Foundation by $20 million by 2009–10, an increase of about 20 per cent. The foundation helps finance community-based initiatives in the arts and culture, environment, human and social services, and sports and recreation sectors.

The government will increase its annual funding to the Ontario Arts Council (OAC) by $15 million by 2009–10, an increase of nearly 38 per cent. Since 1963, OAC has promoted the arts and assisted artists for the benefit of all Ontarians. In 2005–06, OAC provided $35.7 million to nearly 1,300 individual artists and 836 organizations in 253 communities across Ontario.

The government is making a one-time investment in 2006–07 of $10 million to enhance the Arts Endowment Fund, which provides steady income to about 260 organizations for use in their operations.

The Ontario Media Development Corporation (OMDC) promotes and leverages investment, jobs and content creation on behalf of the province's cultural media cluster, including the screen-based industries. Concept development and cash flow financing are useful support tools for the screen-based industries. The government is providing an additional $5 million to OMDC in 2006–07.

Ontario's public libraries play a key role in supporting literacy and learning; fostering an appreciation of literature and culture; and providing information resources to newcomers, job seekers, small businesses and entrepreneurs. The government is providing $5 million to Ontario public libraries in 2006–07.

Government Investments in Ontario's Cultural Sector

Ontario's cultural sector is benefiting from several capital investments that the government is undertaking as part of the stimulus package announced in the *2006 Economic Outlook and Fiscal Review*, including:

- $2.4 million in capital grants to the West Lincoln Public Library, Fort Frances Public Library, Sault Ste. Marie Public Library, Nipigon Public Library and West Perth Public Library
- $1.9 million in capital grants to the Cobalt Mining Museum, Bonnechere Museum (Eganville), Iron Bridge Museum (Huron Shores), Paipoonge Museum (Oliver-Paipoonge), Oil Springs Museum (Petrolia), Red Lake Museum, Battlefield House Museum Park (Stoney Creek), Thunder Bay Historical Museum Society, Timmins Museum and Royal Canadian Regiment Museum (London)
- $2.6 million for additional cultural capital projects, including arts and heritage facilities in Bracebridge, Cornwall, Guelph, Hamilton, Minto, Napanee, Sault Ste. Marie and Thunder Bay.

On January 30, 2007, the government announced a $3 million investment in the Artscape Green Arts Barns. The barns will include artists' live/work studios and offices for non-profit arts and environmental organizations.

These investments complement those announced in the 2006 Budget, including:

- $49 million to support Ontario's major cultural agencies and attractions: Royal Ontario Museum, Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art
- $10 million to the Ontario Heritage Trust
- $7.5 million to the Entertainment and Creative Cluster Partnerships Fund (launched in September 2006)
- $1 million to support Luminato — Toronto Festival of Arts and Creativity.

To support Ontario's cultural heritage, the government will increase annual funding of the Community Museum Operating Grants (CMOG) program by $2.3 million starting in 2007–08. This initiative is also in line with the government's efforts to support tourism in the province, and will help museums across Ontario cope with a recent cut to the Department of Canadian Heritage's Museum Assistance Program.

Also in support of Ontario's cultural heritage, the government is providing $1.2 million to the McMichael Canadian Art Collection in 2006–07.

The first Luminato — Toronto Festival of Arts and Creativity — will take place from June 1 to 10, 2007, showcasing local, regional and international artists. Luminato is currently marketing this new Ontario event, and planning for the following years. In 2006–07, the government is providing $5.5 million to Luminato. This is in addition to $2 million previously provided.

The government is also investing $12.5 million in 2006–07 to support the Toronto International Film Festival (TIFF), completing the government's commitment. Each year, the TIFF presents numerous world premieres of Canadian and international films — allowing filmmakers, producers, investors, distributors, artists and journalists to connect. The TIFF is building a new Festival Centre.

To further support cultural diversity in Ontario, the government is investing $4.9 million in 25 citizenship and cultural centres across the province in 2006–07. These projects will benefit a broad range of ethnic groups in Ontario.

Tourism

Tourism is another important component of Ontario's economy. It contributed $6.3 billion to Ontario's real GDP (1997$) in 2005. In 2006, the industry employed 170,500 workers across the province, representing 2.6 per cent of total employment.

Ontarians vacationing in their own province are vital to the tourism industry. In 2005, Ontarians made over 90 million visits within the province and spent almost $9.2 billion. In the same year, Ontario received 27.4 million visits from other provinces, the United States and overseas. Their expenditures totalled almost $8.2 billion.[1]

Since 2003, the government has consistently demonstrated its commitment to promoting the tourism industry. Initiatives include $49 million in 2006–07 to support Ontario's major cultural agencies and attractions, $5 million in 2005–06 for the Cultural Tourism Marketing campaign, and $30 million in 2004 to revitalize Ontario tourism.

In 2006–07, the government is providing $17.5 million to the City of Niagara Falls, and will provide an additional $17.5 million in 2007–08. The city is planning to build a 230,000-square-foot conference and convention facility that will help address the challenges of seasonality in the Niagara region.

Starting in 2007–08, the Province is committing an additional $2 million annually to the St. Lawrence Parks Commission to support Ontario's Tourism industry and preserve the valuable heritage sites at Fort Henry and Upper Canada Village.

The government is proposing to extend the RST exemption for Destination Marketing Fees for one year to June 30, 2008. This would continue to support Ontario's tourism industry and the hotel industry's initiative in funding tourism marketing.

As part of the government's over $190 million economic stimulus package announced in December 2006, the Ministry of Tourism received $22 million to advance initiatives to boost economic activity and tourism-related jobs. These initiatives include a marketing campaign to encourage Ontarians to travel in the province, as well as support for conventions, festivals and events in Ontario.

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[1] Global Insight report prepared for Ministry of Tourism, "The Ontario Tourism Outlook: 2006–2010 — May 2006 Forecast," May 2006.

SECTION G: INVESTING IN ONTARIO'S INFRASTRUCTURE

OVERVIEW

Public infrastructure is vital to Ontario's economic prosperity and quality of life. The McGuinty government is committed to expanding opportunities for all Ontarians through infrastructure investments in transportation, electricity, health, education, communications, and water and wastewater systems. These investments will benefit Ontario's communities, both large and small.

This Budget builds on the government's current infrastructure investments by providing $5.9 billion in 2007–08.

The government's infrastructure investments speak to the needs and priorities of Ontarians:

- rebuilding Ontario's hospitals, through over 100 major projects to renew and expand health care facilities across the province
- renewing schools and postsecondary facilities
- major new investments to make transit an attractive and green alternative for more people, including the Toronto–York subway, Brampton's ZoomRide, Mississauga's Transitway, improved GO Transit services, and investments of gasoline tax revenues towards municipal transit
- improving and expanding highways in southern and northern Ontario, as well as border crossings
- supporting rural and northern communities through local infrastructure programs such as the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF) and the Rural Infrastructure Investment Initiative (RIII).

ReNew Ontario — the government's five-year, $30 billion plan to revitalize, modernize and expand Ontario's public infrastructure — and Move Ontario — which provided $1.2 billion in one-time investments for public transit and municipal roads and bridges — will together create nearly 400,000 jobs across the province.

The government is also securing Ontario's electricity future by expanding the province's electricity supply by almost 12,000 megawatts, including almost $2 billion in conservation initiatives.

These investments in Ontario's infrastructure will support growing urban centres, strong rural and northern communities, businesses that compete in the global marketplace, and citizens who value a sustainable environment and economy.

Investing in Ontario's Infrastructure to Expand Opportunity

For Ontario to remain competitive in the global economy and achieve its full potential, the government must provide strong and effective support for public infrastructure.

From 1955 to 1980, Ontario's public infrastructure growth outpaced both that in the rest of Canada and Ontario's gross domestic product (GDP) growth. Since 1980–81, however, Ontario's infrastructure growth has lagged GDP growth.

To alleviate this infrastructure deficit, the government has strategically invested — and will continue to — in Ontario's infrastructure. In the 2007–08 fiscal year, Ontario's infrastructure investments will amount to $5.9 billion in gross value. These investments are designed to upgrade and transform Ontario's 20th century infrastructure to meet the demands of the 21st century.

In May 2005, the government introduced its five-year infrastructure investment plan, ReNew Ontario, to better address the Province's infrastructure needs. It provides for infrastructure investments of more than $30 billion. ReNew Ontario provides for the revitalization, modernization and expansion of the province's public infrastructure and major new investments in areas that are of primary importance to Ontarians. Highlights of the plan include:

Selected Highlights of New Infrastructure Investments

- an immediate additional $70 million for the Rural Infrastructure Investment Initiative to fund a total of $140 million in projects in rural and northern communities
- new commitments to Greater Toronto Area (GTA) transit and transportation priorities including York Region's VIVA transit system, Durham's Regional Transit, Highway 7, Highway 404 and the 407 East extension
- municipalities will immediately benefit from over $350 million in investments for public transit
- strategic investment in Niagara regional development.

- over $11 billion in transportation infrastructure initiatives, including $6.5 billion to improve the provincial highway system and Ontario–U.S. border crossings and $4.5 billion for transit expansion and renewal across Ontario
- almost $1 billion for infrastructure initiatives to support clean water and the environment
- $5 billion to upgrade, expand and modernize health care facilities
- over $10 billion for elementary and secondary schools, colleges and universities

- $300 million to enhance the Canada–Ontario Affordable Housing Program, which will help create over 15,000 new units of affordable housing; see Section A: *Expanding Opportunities for Children and Families* for further details.

- $1 billion for justice sector infrastructure, to improve public safety and crime reduction.

- spearheading a transformation of Ontario's cultural sector with major investments in cultural landmarks; see Section F: *Expanding Opportunity for Economic Growth* for further details.

Ontario's Infrastructure

Infrastructure contributes to Ontario's quality of life:

- a prosperous economy — transportation networks are critical to productivity
- high-quality health care — modern hospitals with up-to-date technology reduce wait times
- a culture of environmental responsibility — increasing rapid transit ridership will reduce greenhouse gas emissions
- a compassionate society — the quality of facilities for special-needs children, abused women, and people with disabilities should reflect society's care for them
- integrated communities — infrastructure is fundamental to the culture, character and competitiveness of communities.

Transportation Infrastructure

Highways, Roads and Bridges

Ontario recently announced progress on highway priorities such as:

- $55 million to widen Highway 7 in Durham Region
- $250 million to extend Highway 404 by 13 kilometres
- providing an environmental assessment for an eastward extension of Highway 407.

This year, the government is adding new projects to the plan to further improve traffic flow and safety on provincial highways. Building on the success of the introduction of high occupancy vehicle (HOV) lanes on Highways 403 and 404 in the GTA, the government will be proceeding with projects to add new HOV lanes on sections of Highways 400 and 427. This is in addition to previously announced HOV projects on Highway 417 and the Queen Elizabeth Way (QEW) and is part of the government's plan to develop a network of HOV lanes that will improve travel across the province.

Other new projects include widening of Highway 10 in Caledon, Highway 401 in Kingston and Highway 417 in Ottawa. New safety and operational improvements are planned for Highway 17 between Thunder Bay and Kenora. The government is also proceeding with a new alignment of Highway 26 between Collingwood and Wasaga Beach to improve traffic flow and safety in the area.

The government is helping municipalities invest in highways and local roadways through Connecting Links. In 2006–07, the program invested $15.7 million to fund 37 projects. In this Budget the government is announcing an additional one-time investment of $25 million that municipalities may use for municipal roads across the province.

This is in addition to ReNew Ontario's strategic investments in the provincial highway network, which extends over 16,500 kilometres and includes more than 2,800 bridges. It carries goods worth over $1.2 trillion to national and international markets annually. Unfortunately, the increasing volume of traffic throughout the system slows the movement of goods and hurts productivity. Investing in Ontario's highway infrastructure will not only reduce congestion, but will also help keep roads safe and ensure that the province remains an attractive place to invest, providing for future economic growth and job creation.

Improvements to Ontario's Highways, Roads and Bridges

The following are some expected results that will be achieved under the ReNew Ontario plan.

- 602 kilometres of highway repairs and 82 kilometres of new highway lanes in southern Ontario
- 87 repaired/new bridges in southern Ontario
- new HOV lanes on Highways 403 and 404
- 803 kilometres of highway repairs and 6 kilometres of new highways in northern Ontario
- 69 repaired/new bridges in northern Ontario.

Under ReNew Ontario, the government has developed the Southern Ontario Highways Program that sets out investments totalling $3.4 billion to expand and improve the provincial highway network in southern Ontario. This will provide for the construction of an additional 130 kilometres of highway, the replacement of 64 bridges, and the repair of 1,600 kilometres of highway and 200 bridges. In 2007–08, the government is investing $899 million in Ontario's southern highway network.

The ReNew Ontario plan has also led to the development of the Northern Ontario Highways Program, including investments totalling $1.8 billion for the renewal and expansion of the highway network in northern Ontario. This funding will allow for the expansion of the northern highway system by 64 kilometres; the construction of 54 bridges; and the repair of 2,000 kilometres of highway and 200 bridges. In 2007–08, the government is investing $468 million in Ontario's northern highway network.

Borders, Gateways and Trade Corridors

Another key component of ReNew Ontario is the investment in the Province's border infrastructure. Through this plan, the government has devoted over $800 million to increasing efficiency and capacity at Ontario's borders. Under the plan, the first priority is increasing capacity at the Windsor corridor. This investment includes the $300 million Let's Get Windsor–Essex Moving Strategy, which provides for infrastructure improvements in the Windsor–Detroit Gateway. The Windsor Border Initiatives Implementation Group has been established to take responsibility for the implementation of Phases I and II of the strategy. In addition, over $200 million is planned to widen Highway 401 between Tilbury and Windsor, improving the traffic flow of the Windsor Gateway.

Ontario is also collaborating with the federal government and Quebec to establish a North America Gateway Strategy. There is a need for an integrated set of investment and policy measures to facilitate the movement of people and goods between Canada and the United States, between eastern Canada and the Pacific region, and between Canada and trading partners around the globe. Central to this is establishing the North America Gateway — a transportation infrastructure system encompassing Ontario and Quebec — as the best transportation network for global supply chains between Canada and the rest of the world. Given its national significance, this strategy must be a key component of the emerging federal gateway strategy and strongly aligned with the federal government's Asia-Pacific Gateway Strategy. For the North America Gateway Strategy to achieve its full potential, long-term federal funding is necessary.

Border Facts

Border issues are of integral concern for Ontario, with international trade a major component of the province's economy. Ontario's border crossings are critical to Canadian export business.

- In 2005, 45 million vehicles, including almost nine million trucks, used Ontario's 14 border crossings into the United States.
- Approximately $420 billion in goods cross Ontario's international bridges annually in two-way trade.
- Through the Windsor–Detroit gateway alone, $140 billion worth of goods travel between Canada and the United States annually.
- 40 per cent of Quebec exports by road to the United States travel on Ontario highways.

The government is also moving forward with the environmental assessment of the Niagara to GTA Transportation Corridor as part of the effort to add capacity to the transportation corridor that links Niagara to the GTA.

Border security issues are a major concern for both Canada and the United States. The government is taking steps to protect this shared border. Ontario is introducing a new driver's licence card with technologies and security features to protect holders from identify theft and make it more difficult to tamper with or counterfeit. This new driver's licence is an important part of the Province's efforts to keep its border with the United States safe while maintaining free-flowing trade and travel.

Border Improvements

Achievements

- a new Sault Ste. Marie truck route has been opened
- additional lanes on the Queenston–Lewiston Bridge and Highway 405 have been opened
- improvements have been made to Brookdale Avenue in Cornwall near the border.

In Progress

- the Let's Get Windsor–Essex Moving Strategy, announced in March 2004, including $300 million to improve local roads and highways, and improve the Windsor–Detroit Tunnel Plaza
- improvements to Highways 401 and 402 and the QEW
- environmental assessment studies and community consultation on a new Detroit River crossing and on access-road options
- over $200 million invested to widen Highway 401 from Windsor to Tilbury, in partnership with the federal government
- improving access to border crossings along the Niagara Frontier, through a $207 million partnership with the federal government
- improving the Blue Water Bridge in Sarnia, as well as Highways 401 and 402, through a $115 million partnership with the federal government.

Plans for the Future

- completion of a new Windsor–Detroit crossing by 2013
- completion of a Niagara to GTA corridor
- development of a North America Gateway.

Transit and Regional Transportation

In the 2006 Budget, the government announced the Move Ontario initiative, which provided $1.2 billion in one-time investments to public transit, municipal roads and bridge infrastructure projects. Through Move Ontario, the government's investment in public transit could lead to projects totalling nearly $2.5 billion. This initiative is also expected to create up to 27,000 jobs in Ontario. Highlights include:

- $838 million for the GTA, including
  - $670 million to Toronto and York Region for new subway construction
  - $95 million to the city of Brampton for transit expansion; Brampton will be able to apply this funding towards the $285 million Brampton AcceleRide project
  - $65 million to the city of Mississauga for transit expansion; Mississauga will be able to apply this funding towards the $259 million Mississauga Transitway project. The Province is also providing support for the Transitway with an additional $25 million in GO Transit investments

- $7 million to York Region towards detailed planning for Phase II of VIVA Transit express bus service.

On March 6, 2007, the federal government announced that it will provide almost $1 billion to support the Province's Move Ontario initiative as well as Phase II of VIVA and Durham Region's plan for rapid transit on higher-demand corridors. Ontario is also contributing $85 million to Phase II of VIVA and $2.5 million to Durham Region's plan.

Waterloo Region is one of Ontario's fastest-growing and most innovative communities. The government is committed to working with its municipal, regional and federal partners to complete the technical studies and environmental assessment for the Kitchener–Waterloo Light Rail Transit system and to support the cost of one-third of the project.

In 2006–07, Ontario will invest $277 million for transit infrastructure, distributed to municipalities on the basis of transit ridership. Ontario will also provide $75 million to municipalities, also to be distributed on the basis of transit ridership, for public transit capital.

The Ontario Government is also providing support for public transit infrastructure through ReNew Ontario. To support public transit infrastructure, the government is providing municipalities with two cents per litre of the provincial gasoline tax, as a source of long-term sustainable funding. With this transfer, between October 1, 2006 and September 30, 2007, the government will provide an estimated $313 million to 86 transit systems offering services to 104 communities across the province. By 2010, the government will have provided over $1.6 billion in gasoline tax funding to Ontario municipalities for their local transit priorities. This program gives municipalities a dependable and stable source of financing for their public transit initiatives.

The government has also made other significant investments in the Toronto Transit Commission, including a one-third contribution under the $1 billion Canada Strategic Infrastructure Fund initiative, to modernize and expand bus, streetcar and subway services in Toronto. In this Budget, the government is providing $200 million towards these announcements.

The Province supports public transit and remains committed to improvements to transit in the City of Ottawa in cooperation with municipal and federal partners.

GO Transit ridership has increased by 7.2 per cent in the last two years. As part of its regional transportation strategy, the government has made large and targeted investments in GO Transit that are producing results for commuters around the Greater Golden Horseshoe, including:

- opening four new GO Transit stations
- purchasing 27 more fuel-efficient locomotives and 12 double-decker buses
- adding 500 new bus trips every day in the GTA

- adding 50 new bi-level railcars with the capacity to carry an additional five million passengers per year
- adding 6,000 new parking spaces at GO Transit parking lots.

Greater Toronto Transportation Authority

To complement transit and transportation investments in the GTA, the Ontario Government established the Greater Toronto Transportation Authority (GTTA) in 2006 to provide better coordination among the 10 different public transit systems of the GTA and Hamilton. This agency ensures the delivery of an integrated and more convenient transportation network to meet the growing needs of residents in these areas.

The GTTA's mandate includes:

- implementing the GTA Fare Card System, which will allow commuters to travel on public transit from Durham Region to Hamilton using a single card
- integrating municipal and regional transit planning, and coordinating fares and transit service delivery to improve convenience for commuters
- coordinating the purchase of transit vehicles on behalf of municipalities
- managing the future operation of GO Transit
- developing and submitting an annual capital plan and investment strategy.

Move Ontario Outcomes

- The Toronto–York subway extension will add 36 million transit trips, eliminate 30 million car trips and reduce 250,000 tonnes of greenhouse gases each year. The Mississauga Transitway will carry 5,000 to 10,000 passengers per hour in peak commuter times by 2011.
- Brampton AcceleRide will use hybrid buses, running on ultra-low sulphur diesel fuel, that can reduce fuel consumption by up to 60 per cent and reduce greenhouse gases by up to 50 per cent.

The GTTA will work to reduce congestion by attracting more riders to area transit systems, and help ensure the mobility of goods and people. This will increase productivity, reduce business costs and provide sustainable economic growth.

The government will work with the GTTA to assess opportunities to provide it with long-term revenue sources.

The formation of the GTTA strengthens the government's Growth Plan for the Greater Golden Horseshoe and its Greenbelt Plan. Together, these plans contribute to the foundation for the future growth of the GTA and surrounding areas.

Ontario's Electricity Infrastructure

Investments in New Electricity Supply

Investments in Ontario's electricity infrastructure are essential to support and enhance the province's economic competitiveness and quality of life. The government directed the Ontario Power Authority (OPA) to produce an Integrated Power System Plan (IPSP) to ensure long-term supply adequacy, which will be submitted to the Ontario Energy Board (OEB) for review and approval. The IPSP will have a 20-year horizon and integrate investments in new renewable energy sources, conservation and demand management (CDM), and new or refurbished nuclear generating capacity, as well as investments in Ontario's transmission infrastructure.

The government also remains committed to replacing coal-fired generation in Ontario. The Minister of Energy has asked the OPA to develop a plan for replacing coal-fired generation in the earliest practical time frame, without compromising reliability.

The government has already initiated one of the most ambitious near-term building programs in North America for new electricity generation.

- Since October 2003, about 3,500 megawatts (MW) of power generation and CDM have come online — improving the supply situation in Ontario, with enough power for about 1.9 million homes.

- About 7,300 MW of electricity supply projects are underway, adding enough power for about 3.3 million homes over the next four years.

- In addition, the OPA has about 1,000 MW of CDM and renewable procurements either underway or in the planning phase.

ELECTRICITY SUPPLY PROJECTS — **TABLE 7**

Type	Capacity (MW)	Approximate Number of Homes Powered[1] ('000s)
Projects Online		
Renewables	412	108
CDM[2]	195	–
Gas	800	315
Nuclear	2,055	1,440
Subtotal	**3,462**	**1,863**
Projects in Progress		
Renewables[3]	1,102	399
CDM	474	–
Gas	4,267	1,809
Nuclear[4]	1,500	1,051
Subtotal	**7,343**	**3,260**
Procurements Underway and Planned		
Renewables	359	94
CDM	631	–
Subtotal	**990**	**94**
Total Projects in Progress and Procurements	**8,333**	**3,354**
Grand Total	**11,795**	**5,217**

[1] Annual household consumption assumed at 10,000 kWh/year. Estimated number of homes based on capacity factors assumed: nuclear units at 80 per cent, gas at 45 per cent, renewable procurements at 30 per cent and cogeneration at 80 per cent.

[2] Conservation and Demand Management. Number of homes powered excludes any estimates for contributions from CDM.

[3] Includes a notional 200 MW for the Niagara Tunnel project, which allows more energy to be produced from existing capacity — 200 MW illustrates estimated average annual additional generation of 1.6 terawatt-hours.

[4] The Bruce Power Refurbishment Implementation Agreement also includes investments in the currently operating Bruce A Units 3 and 4, which are intended to extend their operating lives.

Note: Numbers may not add due to rounding.

About $11.5 billion in investments are being made in the projects in progress for new and refurbished generation. At the peak of construction activity, over 5,000 workers will be directly employed at these projects, and including indirect jobs in factories supplying new materials and equipment to them, they will support about 20,000 jobs on average per year in Ontario over the construction period.

The government has also directed Ontario Power Generation (OPG) to start feasibility studies on refurbishing its existing nuclear units, and initiate a federal approvals process for new nuclear units at an existing site.

On September 22, 2006, OPG started the federal approvals process by filing an application with the Canadian Nuclear Safety Commission (CNSC) for a Site Preparation Licence for new nuclear units at OPG's Darlington Nuclear site. In addition, on August 17, 2006, Bruce Power Limited Partnership filed an application with the CNSC to prepare a site for the potential construction of new reactors.

NEW ELECTRICITY GENERATION PROJECTS IN PROGRESS — **TABLE 8**

	Investment ($ Billions)
Renewable Energy Supply	1.9
New Gas-Fired Generation	3.6
Co-Generation	0.8
Niagara Tunnel	1.0
Bruce Power Refurbishment Implementation Agreement	4.25
Total	**11.5**

Note: Numbers may not add due to rounding.
Sources: Ontario Ministries of Finance and Energy.

Building new nuclear units will be guided by the following criteria:

- willing host community and appropriate site
- fixed price with performance guarantees
- turnkey agreement to limit the risk of cost overruns
- cost effectiveness over refurbishment.

The government has also directed the OPA to plan for nuclear capacity to meet baseload electricity requirements in its IPSP, limiting the installed in-service capacity to 14,000 MW over the life of the plan. Nuclear energy generated by OPG and Bruce Power currently supplies about 50 per cent of Ontario's electricity needs and is a zero air-emissions source of electricity generation. A 1,000 MW nuclear power plant, compared to an equal-sized coal-fired electricity plant generating the same amount of electricity, avoids about six to seven million tonnes per year of carbon-dioxide equivalent emissions — a major greenhouse gas.

To promote reliable delivery of electricity, Hydro One plans to invest more than $4 billion from 2007 to 2009 to sustain, expand and reinforce its transmission and distribution systems — significantly more per year than the $823 million in capital expenditures invested in 2006.

The government is also promoting consolidation efficiencies in the municipal electric utilities sector through a two-year exemption from the electricity transfer tax for sales of electricity assets between publicly owned electric utilities. Previous transfer tax exemptions helped promote consolidations that led to estimated efficiency savings of 10 to 30 per cent in operations, maintenance and administration costs.

Investments in Green Renewable Energy and Conservation

The government recognizes the importance of investments in sustainable and cleaner energy, including more renewable capacity and CDM initiatives. As part of the government's directive to the OPA on its plan, the Province's renewable energy sources are targeted to double by 2025, to 15,700 MW, making Ontario a leader in clean energy.

Seven energy-efficient combined heat and power cogeneration projects totalling 414 MW are among the new supply projects currently underway. They include a Thorold paper mill, a Ford plant in Windsor, and a Sault Ste. Marie steel mill.

In addition, the government has initiated a standard offer program administered by OPA aimed at small-scale generation projects — less than 10 MW each — increasing the availability of renewable power and promoting economic development within communities. As of February 27, 2007, 22 projects representing more than 140 MW had been awarded under this program.

The government has also directed that an aggressive conservation goal be built into the OPA's plan, with a reduction in projected peak electricity use by 1,350 MW across Ontario by the end of 2007, an additional 1,350 MW by 2010, and 3,600 MW more by 2025, for a total of 6,300 MW by 2025.

So far the government has set in motion conservation programs and initiatives representing over $2 billion to reduce electricity use in the province.

Electricity Price Stability for Ontario Consumers and Businesses

Price stability enhances the competitiveness of Ontario's economy and promotes a more prosperous Ontario.

For residential and small business consumers, the government has established a regulated price plan (RPP), with prices set periodically by the OEB. Reflecting the improved electricity supply situation in Ontario and lower spot market electricity prices, the OEB reduced the RPP by 0.3 cents per kilowatt hour (¢/kWh) on November 1, 2006.

Electricity Price Stability Measure

The government extended and adjusted the transitional revenue limit on most of the output from OPG's non-price regulated assets:

- 4.6¢/kWh from May 1, 2006 to April 30, 2007
- 4.7¢/kWh from May 1, 2007 to April 30, 2008
- 4.8¢/kWh from May 1, 2008 to April 30, 2009.

The transitional revenue limit applies to approximately 20 per cent of the province's power generation.

Electricity users benefit from increased price stability through the regulation of OPG's nuclear and large hydroelectric assets and a transitional revenue limit on most of the output from the rest of OPG's assets. Effective April 1, 2005, OPG's nuclear and large hydroelectric plants became price regulated and the government set an initial average regulated price of 4.5 ¢/kWh on this output. The OEB will assume responsibility for setting OPG-regulated prices after March 31, 2008.

Community and Social Infrastructure

Health Care

The government is taking action to modernize and upgrade Ontario's health care facilities and equipment, and expand hospital capacity. Through ReNew Ontario, the government is investing more than $5 billion in health care infrastructure by 2010.

This investment includes the funding of more than 100 major projects to create new hospitals, modernize older hospitals and reduce wait times. This plan also calls for an investment of more than $200 million in new and upgraded medical and diagnostic equipment. These investments reduce wait times and support the provision of newer, more complex treatment methods, resulting in better health and safer care for Ontarians.

This year, the government is expanding the ReNew Ontario plan by funding the construction of two new hospitals. Mental Health Centre Penetanguishene's Oak Ridges facility will be replaced, and a new state-of-the-art hospital will be built in Smiths Falls. The new Perth and Smiths Falls District Hospital will ensure that eastern Ontarians continue to have access to quality health care.

Renewing Ontario's Health Infrastructure

- The Hôpital Montfort redevelopment project in Ottawa, which broke ground in June 2006, will double the size of the facility to 417 beds.
- As of March 2007, the preferred teams have been selected for major Alternative Financing and Procurement (AFP) hospital projects in Belleville, Sudbury and North Bay. In addition, three Requests for Proposals (RFPs) are closed and under review for major hospital projects in Mississauga, London and Toronto. Requests for Proposals, or Requests for Qualifications (RFQs), have been issued for a further 10 AFP projects.
- The government has improved access to diagnostic scans by adding seven new hospital-based magnetic resonance imaging (MRI) services in Ontario since May 2004; provided funding for expanded hours of service of an MRI machine at Halton Health Care from 8 to 12 hours per day, five days a week; and started construction of a new MRI service at Soldiers' Memorial Hospital in Orillia. In addition, seven old hospital-based MRI machines have been replaced with newer, more efficient ones.
- Since 2005, 31 old hospital-based computed tomography (CT) scanners have been replaced with the latest CT scanner technology.
- Since 2005, 39 long-term care projects have been completed, 931 new long-term care beds have been added, and more than 4,000 existing beds have been redeveloped.
- The government has invested $50 million to increase the number of spaces in Ontario's medical schools. This will mean a 15 per cent increase in the number of doctors graduating each year, starting in 2011–12.

Education

As part of the economic stimulus package in the *2006 Fall Economic Outlook and Fiscal Review*, the government invested $30 million in renovation, new construction and energy-efficiency projects at colleges. Building on this investment, this Budget confirms the government's additional investment of $390 million to support quality improvements in postsecondary education. See Section C: *Expanding Opportunities for Students* for further details.

These investments are part of ReNew Ontario. Under ReNew Ontario, the government is investing more than $10 billion to renew and expand schools and postsecondary institutions by 2010.

Key elements of the strategy include:

- establishing the Good Places to Learn initiative, which will provide approximately $4 billion to school boards to help them address the backlog of repairs and build new schools
- investing approximately $1.4 billion for planned school construction and to accommodate projected new enrolment growth
- providing $1.5 billion to school boards for ongoing renewal of school facilities
- investing $1.8 billion to support completed school construction
- investing $540 million to renew university and college facilities and buy new equipment
- investing $550 million to provide 14,000 new spaces in graduate programs across Ontario.

EDUCATION CHALLENGES AND SOLUTIONS — **TABLE 9**

Challenge	Solution
Aging school buildings (the average age of Ontario school buildings is 42 years).	Almost 6,800 urgent repair and construction projects are completed or underway as part of the Good Places to Learn initiative.
Equipment must be continually refreshed and facilities require ongoing maintenance.	Investment of $380 million since ReNew Ontario began, to purchase and modernize equipment and maintain buildings at Ontario's colleges and universities.
Need to expand graduate-school spaces.	Creation of 12,000 new graduate-school spaces across the province by 2007–08 and 2,000 more new spaces by 2009–10.

Infrastructure for Vulnerable Populations

The economic stimulus package announced in the *2006 Economic Outlook and Fiscal Review* provided funding for over 3,000 social infrastructure projects. These projects will help ensure that the agencies supporting Ontario's vulnerable populations are delivering their services in safe and secure circumstances.

Economic Stimulus Package Investments for Vulnerable Populations — **Table 10**

	Approximate Number of Projects	Investments ($ Millions)
Development Services Agencies and Violence Against Women Shelters	2,150	36.4
Facilities for Children with Disabilities	950	37.2

New Infrastructure Investments to Aid Vulnerable Populations

In addition to the economic stimulus package investments, in 2006–07, the government is providing further investments to help vulnerable populations. These investments include:

- $7.0 million to developmental services agencies including group homes
- over $2.0 million for shelters for women and children fleeing domestic violence
- $9.0 million for agencies that assist vulnerable children and youth

Examples of agencies receiving funding include:

- $2 million for the Ottawa Rotary Home Respite Centre. The agency provides respite services for children and young adults with disabilities
- over $1 million for Kinark Child and Family Services in Newmarket. The agency provides programs and space for complex-needs clients
- $1 million for the Catholic Family Counselling Centre of Waterloo Region. This agency provides support to victims of domestic violence.

Local Community Infrastructure

Ontario has a wealth of community infrastructure: arenas, libraries, galleries, museums, and public waterfronts. These assets improve quality of life, and make Ontario an attractive destination for cultural and recreational tourism — a key contributor to the province's prosperity.

Selected Economic Stimulus Package Investments in Local Community Infrastructure — **Table 11**

Project Type	Investments ($ Millions)
Sport and Recreation Facilities	26.4
Citizenship and Culture Centres	2.1
Justice Projects in Small Communities	4.2
Heritage Facilities	1.9
Libraries	2.4
Museums	1.9
Other Municipalities	3.7
Total	**42.6**

The government has taken action to ensure the care and upkeep of these important facilities. The economic stimulus package announced in the *2006 Economic Outlook and Fiscal Review* provided $42.6 million for community infrastructure projects

around the province. These projects include recreational facilities, multicultural centres, senior facilities, museums and libraries.

Through ReNew Ontario, the government has also acted to revitalize cultural landmarks in Toronto and Ottawa, two of Ontario's largest urban centres. Institutions receiving support include the Royal Ontario Museum, Art Gallery of Ontario, Royal Conservatory of Music, Toronto International Film Festival, and Ottawa Chamber Music Society's new Concert Hall. As a result of these investments, the Province's new world-class venues will enrich Ontario's cultural life while bolstering its reputation as a destination for cultural tourism and enhancing its economic prosperity.

Selected Investments in Local Community Infrastructure

- 25 citizenship and culture centres, including the St. George Arab Culture Centre, will benefit from a total of $4.9 million
- $9.9 million will further improve hospice facilities, including Hamilton's Dr. Bob Kemp House, Hospice Windsor, Hospice Niagara, Bethel House in Caledon, Dorothy Ley Hospice in Etobicoke and the Yee Hong Hospice in Toronto
- sport and community recreation centres, such as the Port Colborne Multi-Purpose Sports Complex and Cobourg Ice Rink, will benefit from almost $15 million in funding.

Communications Infrastructure

A Communications System for the 21st Century

The government is investing in modern and effective public communications infrastructure, which provides many economic and social benefits to the province. See Section F: *Expanding Opportunities for Economic Growth* for further details. These investments include the following:

- The Northern Ontario Heritage Fund Corporation (NOHFC) is providing support to expand broadband and cellular services to remote areas of northern Ontario. The NOHFC's Emerging Technology Program will encourage investment in telecommunication infrastructure projects, which could enhance broadband Internet and cellular service and will strive to connect most of northern Ontario within three years.

- The government is investing to bring broadband access to more communities in rural areas. It is investing $10 million in 2007–08 to help expand broadband coverage in rural southern Ontario by leveraging community and private-sector investment.

- The government is transforming itself into an e-government, with a current focus on electronic service delivery to citizens and businesses. See Section H: *Expanding Opportunities through a Modern and Efficient Government* for more information.

Ontario–Municipal Infrastructure Investments

Long-Term Funding of Infrastructure

The government has introduced several initiatives to help municipalities finance their infrastructure projects.

Infrastructure Ontario provides innovative low-cost, long-term loans to help municipalities and other public-sector partners finance local infrastructure projects. These loans are provided through the Ontario Strategic Infrastructure Financing Authority (OSIFA) Loan Program. As of December 2006, this program has committed to providing more than $2.8 billion in low-cost, long-term financing to over 200 municipalities and universities. These loans have initiated more than 1,200 infrastructure projects.

In partnership with the federal government, the Ontario Government has established the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF). The provincial and federal governments have each contributed up to $298 million to COMRIF. With municipal investments, this program is expected to stimulate up to $900 million in infrastructure investments over five years to help meet local priorities.

The province's gasoline tax transfer program is providing a dependable, stable source of financing for municipal transit projects. By 2010, the government will have provided over $1.6 billion in gasoline tax funding to municipalities. As part of the government's Northern Prosperity Plan, the Northern Ontario Heritage Fund Corporation provides funds for northern municipalities for infrastructure projects.

The Ontario Government has also established the Rural Infrastructure Investment Initiative (RIII). The Province has doubled the initial $70 million planned for this initiative to $140 million to help rural and small municipalities provide safe and reliable local infrastructure. Funding has been made available to eligible municipalities for construction-ready projects in five priority areas: local roads and bridges; clean water and wastewater; solid waste management; sports, recreation and cultural facilities; and community energy projects.

In addition to its investments, the Province will continue to work with its federal and municipal partners to secure long-term investments in infrastructure. This includes funding for the North America Gateway, transit and transportation in the GTA, and infrastructure for strong rural and northern communities.

Ontario's Municipal Roads and Bridges

Through the Move Ontario infrastructure initiative, the government has provided $400 million for municipal roads and bridges projects. This investment is helping municipalities primarily outside the GTA, with special emphasis on rural and northern communities. These funds are enough to resurface almost 3,000 kilometres of two-lane municipal roads or repair up to 800 bridges — projects that could create up to 4,000 jobs.

The government has also provided funding and financing, through COMRIF and Infrastructure Ontario's OSIFA Loan Program, to help Ontario's municipalities meet their local road and bridge infrastructure needs. To date under COMRIF, the provincial and federal governments have committed almost $190 million for 197 road and bridge projects. Since 2003, Infrastructure Ontario's OSIFA Loan Program has provided municipalities with over $465 million to finance more than 310 road and bridge projects.

Municipal Water and Wastewater Infrastructure

Through ReNew Ontario, the government has committed to invest almost $1 billion by 2010 for initiatives to support clean water and the environment. Through all three intakes of COMRIF, the provincial and federal governments have committed almost $380 million to help 60 small and rural municipalities across the province upgrade their water and wastewater systems. The government is also supporting municipalities in meeting their water and wastewater infrastructure needs through Infrastructure Ontario's OSIFA Loan Program. Since 2003, the program has committed to providing over $1.2 billion in financing municipal water and wastewater projects.

The province is also preparing a financial plan regulation, under the *Safe Drinking Water Act*, as well as a guidance document to help municipalities achieve financially sustainable water and wastewater systems. Further, the government is developing a series of guides to showcase best practices in areas such as asset management and business planning, and to promote continuous improvement. The series is intended to help municipalities prepare for the transition to full accrual accounting and move towards financial sustainability of water systems.

SECTION H: EXPANDING OPPORTUNITIES THROUGH A MODERN AND EFFICIENT GOVERNMENT

OVERVIEW

The government is delivering dynamic, modern and efficient public services, focused on priorities and results. It is accomplishing this despite having inherited a fiscal deficit of $5.5 billion, plus deficits in health, education and infrastructure. The McGuinty government has successfully tackled a dual challenge: to restore Ontario's fiscal health while investing in the services and priorities that Ontarians value most — better health, student success, a strong economy and expanded opportunities for all Ontarians.

The government has increased efficiency across all its operations, and reinvested in the services Ontarians need most. It is freeing up resources through consolidated administrative services, better use of information technology and streamlined purchasing processes. By reallocating efficiencies into key priorities — health care, education, a prosperous economy and safe, strong communities — the government has been able to improve results and services for Ontarians in these crucial areas.

TOTAL PROGRAM REVIEW SAVINGS AND EFFICIENCIES **TABLE 12**
($ MILLIONS)

	2007–08
Supply Chain and Transaction Services A more streamlined purchasing process, vendor rebates and new vendors of record are decreasing procurement costs	200
Information and Information Technology Consolidation of desktop management and rationalization of common services and applications across the Ontario Public Service; reduced inbound toll-free and outbound long-distance telephone costs	100
Accommodation Savings Review Reduced accommodation costs by better aligning real estate needs and retrofitting government buildings so they use less energy	50
Revenue Savings Improving the collection of the government's accounts receivable and increasing the use of electronic funds transfers, resulting in more efficient management of government revenues	57
Salary and Wage Pressures Absorbed Ministries have realized sufficient savings from program review to absorb costs	366
Ministry Efficiencies - Absorbing Inflationary Costs Inflationary costs such as increased fuel and electricity	18
Central Agency Review/Integration Integration of central agencies and streamlined decision-making through integrated systems and processes	15
Total	**806**

Since 2004, government ministries have contained growth in spending by absorbing hundreds of millions of dollars in increased costs, including inflation, salaries and administrative expenses.

As a result of these efficiencies, the cost of administering government since 2004 has decreased from 15 per cent to 14 per cent of total government spending.[1] In fact, according to Statistics Canada, Ontario's spending on general government services, which includes general administration costs, was $119 per person in 2005–06 — the second-lowest rate among provincial governments, and 34 per cent below the $181 average per-person expenditure of other provincial and territorial governments.[2]

By restricting administrative spending and absorbing millions in cost increases, Ontario has been able to invest in priority public services.

Considerable annual savings have already been achieved. The government is determined to continue looking for ways to cut administrative costs and improve services. To that end, an annual year-end savings target of approximately one per cent of total spending is now included in the Province's medium-term fiscal outlook.

Ontario continues to pursue opportunities to work across different levels of government. Citizens expect different levels of government to work together to get the most out of their investments in public services. Ontario is a national leader in government service integration, bringing together federal, municipal and provincial services in one-stop locations, such as the Ottawa Government Service Centre. Ontario has also successfully negotiated agreements with other levels of government to harmonize or rationalize how services are delivered to citizens, in areas such as corporate tax administration, labour-market training and employment services, and is working on an agreement for meat inspection. These and other examples of cross-government partnerships are highlighted below. Further details are found in Section G: *Investing in Ontario's Infrastructure.*

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1 Expenditure Estimates of the Province of Ontario, 2003–04 and 2006–07.

2 Statistics Canada, Public Sector Statistics, Financial Management System, 2005/2006. Consolidated provincial and territorial government revenue and expenditures.

Improving Services — Ontarians Benefit from Public Services Daily

To ensure that public services focus on Ontarians' priorities and are delivered cost effectively, the government has been modernizing its business practices. It has also been working with its health and education partners in the broader public sector (BPS) to help them improve services to the public by using information technology more effectively and streamlining business processes.

Investing in Priority Public Services Yields High Returns

- The OntarioBuys program, announced in 2004, helps hospitals, universities, colleges and other institutions consolidate and streamline purchasing processes.
- OntarioBuys has invested $38 million in 25 projects in health care and education facilities, including postsecondary institutions, involving more than 100 institutions across the province.
- These sectors are expected to redirect $100 million annually by 2009–10 to support public service priorities. This means nurses can spend more time with patients, and teachers can spend more time with students.

Health

The government is implementing key strategies and investments to transform the delivery of health services, as outlined in Section D: *Expanding Opportunities for Better Health*. With this Budget, the government is providing an additional $64 million in 2007–08 to further its comprehensive e-Health strategy, including a new secure electronic health record.

In addition, the government is making improvements to the efficiency of back-office services that support better patient care. To focus resources on direct patient care, the government, through OntarioBuys, has made a one-time investment of $13.1 million in six electronic supply chain management projects involving 46 hospitals and health care facilities. These projects are already reaping administrative savings, expected to reach $7 million annually by next year, plus additional one-time savings that will be redirected to patient care. Annual savings from supply chain modernization across the health care sector are expected to reach $50 million by 2009–10.

Highlights include the following:

- One-time funding of $1.4 million through the OntarioBuys program, allowing The Ottawa Hospital to replace manual procurement with efficient electronic processes, immediately eliminating 11,000 paper cheques and 10,000 paper invoices annually. These measures have resulted in annual savings of $1.2 million for reinvestment in health care services.

- A $1.7 million investment through OntarioBuys to help The Hospital for Sick Children in Toronto implement an automated re-supply system that increases supply chain accuracy and streamlines the ordering process. As a result, frontline staff have more time to do their jobs, with nursing staff alone having an estimated 300 additional hours a week to devote to direct patient care.

- A joint venture involving London Health Sciences Centre and St. Joseph's Health Care has saved $5 million in inventory costs and $1.7 million in administrative costs. This initiative has also freed up 40,000 square feet of hospital space — the equivalent of two Olympic-sized ice rinks — through the creation of a common warehouse facility serving several London-area hospitals.

Education

Ontario has made substantial investments in a strong education system, in part by achieving efficiencies and reallocating resources. Initiatives include:

- implementing lower-cost, long-term financing totalling $758 million for school boards
- integrating technology systems across government and with school boards to foster more efficient financial management and cost-effective service delivery
- introducing an e-learning strategy, which has allowed 55 school boards to save costs by accessing online courses, a digital library and technical training
- providing seed money to nine colleges, universities and school boards, through OntarioBuys, to support the formation of the Ontario Education Collaborative Marketplace (OECM), an electronic procurement initiative. These initial participating institutions purchase over $1 billion in goods and services annually. Projected annual savings across the education sector are $50 million by 2009–10 and $70 million by 2010–11
- investing to give students at the province's 20 universities 24/7 online access to more than 50,000 books.

Business

The government has introduced numerous efficiencies to improve Ontario's business climate — reducing the paper burden, streamlining tax processes and modernizing the business law framework. Through these, and by working with other levels of government and developing more efficient delivery channels, the Province continues to improve Ontario's business environment.

- It is now possible to register Ontario businesses online in just 20 minutes — versus six weeks by mail. A "one-window" Regulatory Registry for small businesses and an improved Business Registration and Change of Business Information service allow businesses to simultaneously notify both the Province and the Canada Revenue Agency of any changes, including address and status.
- Starting in 2007–08, the government is investing $500,000 annually, through the Ministry of Economic Development and Trade, to modernize the regulatory regime for business and streamline approval processes.

- To make it easier and more convenient for businesses to comply with Ontario's tax laws, the government has launched Modernizing Ontario's Systems for Tax Administration (MOST), one of its largest business transformation projects. The MOST project will provide enhanced services enabling Ontario businesses to access and view tax-related information, file returns and pay their taxes electronically. This will improve client service, ensure fairness in the tax system and secure the Province's tax revenue stream.

- The Province and the federal government recently signed a memorandum of agreement on corporate tax administration. Enabling legislation, if enacted, would transfer administration of Ontario's corporate income tax and capital tax to the Canada Revenue Agency, effective for taxation years ending after 2008. Corporate tax harmonization — with one tax form, one tax administration and one set of tax rules — is estimated to save corporations $90 million annually in Ontario corporate income tax and up to an additional $100 million annually in compliance costs. See Chapter III: *Ontario's Tax System Supports Expanded Prosperity* for more information.

- BizPaL, an online pilot project at www.bizpal.ca, simplifies and expedites the business permit and licence process by providing one-stop access to permit and licence information for all levels of government.

- The government is continuing to modernize Ontario's corporate and commercial law framework to reduce undue burdens on Ontario businesses, through a comprehensive overhaul of corporate law and updates to laws on the transfer of securities held in electronic form.

- Ontario is leading the drive to establish a common securities regulator for Canada.

- Efficiencies allowed the hiring of 200 additional workplace health and safety inspectors without increasing overhead costs, helping reduce time lost due to injuries.

- Other improvements benefiting workers include expanded regional and online access to information as well as multilingual employment standards publications to ensure fair and improved access by the province's most vulnerable workers for filing of their employment standards claims.

Improved Access and Response Times

Through focused resources, better use of technology and working with other levels of government, the Province has greatly improved access and response times for the routine transactions that matter to individuals, families and businesses.

- ServiceOntario, the government's one-stop modern retail service delivery network, offers high-quality, effective accessible services for routine transactions, including birth, marriage and business registrations — both online and through information centres. New centres have opened in Ottawa, Belleville, Peterborough, Geraldton, Owen Sound and Windsor, bringing the total to 64 across the province.

- After inheriting a birth certificate system with massive backlogs and delays, Ontario was the first government in North America to offer a money-back service guarantee: 15 business days to deliver online birth certificates. As of December 15, 2006, 99.7 per cent of requests have been met on time. Previously, Ontarians had waited up to 19 weeks for regular delivery of birth certificates. As well, a single online process now allows parents to register their child's birth and obtain the birth certificate and social insurance card, all at the same time. Even with a 20 per cent increase in demand for certificates, to meet new U.S. border-crossing requirements, ServiceOntario has been able to manage the increased workload without additional funding.

- The Province announced in January 2007 that it is expanding the money-back guarantee to apply to marriage and death certificates. In February 2007, it announced a two-day money-back guarantee for a master business licence, which businesses need to open a bank account and operate in Ontario.

- Ontarians can update their addresses online for drivers' licences, health cards and outdoor cards, and obtain other commonly needed services, including licence renewal, used-vehicle information and customized licence plates, through new features offered by ServiceOntario.

- The government has expanded public access to online information on government services at 42 public libraries and 13 First Nations public libraries across the province. This Budget invests a further $5 million in Ontario's libraries.

Ensuring access to justice is a cornerstone of Ontario's justice system and an obligation of the government. Proposed amendments to the *Justices of the Peace Act* would streamline the process for considering applicants for appointment as justices of the peace by the Justices of the Peace Appointments Advisory Committee.

Strengthened Transparency and Accountability

To enhance the transparency and accountability of government, the Province has:

- enacted the *Fiscal Transparency and Accountability Act, 2004*, which sets new standards for government resource planning and reporting, and requires the Ministry of Finance to release a pre-election report on Ontario's finances for review by the auditor general

- expanded the role of the auditor general to examine institutions in the broader public sector

- consolidated hospitals, schools and colleges into the Province's financial statements.

In light of newly fixed election dates, as detailed in Chapter II: *Ontario's Economic Outlook and Fiscal Plan*, the government intends to further enhance transparency and accountability by proposing the *Interim Appropriations Act*. If enacted, the act would give the government legal spending authority from the start of the fiscal year, through the general election.

Information and Information Technology

Over the past two years, Ontario has progressed towards becoming an e-government, with a focus on expanding electronic service delivery in order to provide cost-effective 24/7 access to government information and services. By driving down costs and increasing efficiencies, the government has reduced spending on information and information technology (I&IT) by $100 million.

Ontario Gets the Highest Ratings for Kiosks

The majority of Ontarians surveyed report that they are satisfied or very satisfied with electronic access to government services, such as kiosks (electronic self-service counters placed in malls and other public areas), and online driver's licence and health card renewals. For example, 73 per cent of Ontario kiosk users find the service satisfactory or very satisfactory, versus 67 per cent in other provinces.

High-volume public service transactions are less costly and faster now, using e-channels rather than previous manual processing:

- Online legal aid billing has reduced costs by 25 per cent and processing time by 69 per cent from April 2005 to May 2006.
- Online parental support payments cost 85 per cent less to process than paper cheque transactions and are posted to client accounts within 36 hours — compared to 10 days for paper cheques.

Use of electronic channels for government service delivery is increasing. The Province's new Internet portals, whose central site is www.ontario.ca, are growing in popularity. Other one-window portals serve the needs of various groups. For example, www.ontarioimmigration.ca offers useful information for prospective and new immigrants on what they need to know before and after they arrive, and provides links to programs and services to support their successful integration into Ontario. Global Experience Ontario, recently established and funded from internal efficiencies, is a one-stop resource centre to help internationally educated non-medical professionals find out how to qualify and apply for practice in Ontario.

Implementing the government-wide Integrated Financial Information System has been a major driver of improved operational efficiency and program effectiveness. This system replaced three core financial systems and 73 other legacy systems. Legislators and the public now receive complete and current financial information. Financial roll-ups are completed in half the previous time. Improved forecasting and cash-flow management allow the Province to reduce borrowing costs.

Continued automation of the Ontario land registry system under contract with Teranet has dramatically increased efficiency — now 85 per cent of land registrations are filed electronically and 87 per cent of

Ontario property records are automated. Although demand for registrations has risen 50 per cent over the past five years, new, more efficient processes have met the demand without new funding.

The government is expanding the use of videoconferencing for more cost-effective interoffice meetings and interviews, avoiding travel costs and time, particularly for offices in remote locations.

Human Resources

A modern public service values its employees and nurtures their capacity to learn, lead and thrive in a changing environment. The government is developing future leaders, promoting effective partnerships with bargaining agents, and working to ensure that public servants have the skills they need to transform government and deliver excellent services, now and in the future. For example:

- Updated public service legislation strengthens the fundamental principles of public service: transparency, accountability, non-partisanship, competency and professionalism.

- Settlements reached with the government's major collective-bargaining agents have meant uninterrupted services to the public, with lower labour cost increases than in the BPS.

- The Ontario Public Service (OPS) Innovation Fund, established to promote innovation and transformation across government, has supported 35 projects over the past two years with potential annual savings of up to $5 million — for example, a victim services portal for victims of crime, service providers and the public; a useful video for disability support applicants; and access to satellite images to assist in emergencies such as forest fires.

- The OPS has initiated a Youth and New Professionals Strategy to help attract and retain quality public servants, with a special focus on students, including aboriginal youth, and internationally trained professionals.

Efficiencies have allowed the government to reinvest in the OPS by hiring more staff for priority programs, including:

- 160 health care workers
- 185 social assistance workers
- 285 security, probation and parole officers
- 120 safe drinking water and nutrient management staff
- 155 food safety officers and meat inspectors
- 200 workplace health and safety inspectors
- 650 staff transferred from the federal government for employment training and services
- 130 natural resources staff.

As well, the government has hired 470 staff as a result of the government's decision to operate the Central North Correctional Centre.

At the same time, Ontario has the second-lowest number of public-sector employees per 1,000 population among the provinces and territories.[1]

To lower costs and retain skilled staff, the government has reduced reliance on expensive consultants for the services Ontarians need by approving the conversion of 944 temporary positions to full-time posts, with efficiencies of approximately $37 million annually.

Ontario's transformation to a modern, efficient government involves fostering a culture of continuous improvement. Ministries review programs, services and administrative processes on an ongoing basis. This ensures that government takes every opportunity to achieve efficiencies and reinvest in cost-effective and sustainable services for Ontarians.

[1] Statistics Canada, Public Sector Statistics, Financial Management System, 2005/2006. Consolidated provincial and territorial government revenue and expenditures.

CHAPTER II

Ontario's Economic Outlook and Fiscal Plan

SECTION A: OVERVIEW

ONTARIO'S ECONOMIC AND FISCAL OUTLOOK

The Ontario Government has succeeded in eliminating the deficit while investing in key priority areas that matter to Ontarians.

When the government came to office in 2003, an independent review of Ontario's finances concluded that the Province was on track to post a significant deficit in 2003–04 — since confirmed to have been $5.5 billion. This fiscal year, despite weaker-than-expected economic growth, the Province is projected to post its second consecutive surplus. The government has been able to accomplish this while investing in key priority areas such as health, education, infrastructure and postsecondary education.

It is anticipated that 2007–08 will end with a surplus of $350 million if, as has been the case in the previous three years, the reserve is not required. The outlook for 2008 and beyond calls for economic growth to strengthen in a more favourable global environment, boosted by an expected rebound in the auto sector. Corresponding to this outlook for strengthening economic growth, the Province is on track to post surpluses of $1.3 billion in 2008–09 and $1.6 billion in 2009–10. This considerable improvement in the Province's fiscal position means that, if the reserve is not required in 2007–08, the Province is on track to post five consecutive fiscal surpluses between 2005–06 and 2009–10.

This Budget demonstrates that the government's plan for Ontario is working. Consecutive surpluses and an improving debt-to-GDP ratio combined with ongoing strategic investments in key priorities will continue to strengthen the economy. In addition, significant steps (outlined in Chapter I, Section H: *Expanding Opportunities through a Modern and Efficient Government*) have been taken to ensure that the government's operations are efficient and effective while improving fiscal transparency, accountability and financial management to assure Ontarians that their tax dollars are being spent wisely.

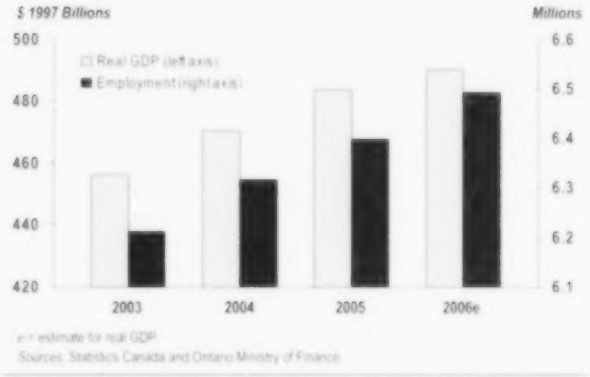
The accomplishments of the government, coupled with the hard work of Ontarians, ensure that the province is on a sound economic footing going forward.

Economic and Fiscal Progress

Ontario's Economic Progress

Ontario's economy has grown and created jobs over the past three years, despite significant challenges arising from the global economic environment. Certain sectors have been affected by higher oil prices, the stronger Canadian dollar, rising interest rates and emerging competition from newly industrializing economies. In 2006, the economy also had to contend with restructuring in the auto sector, combined with lower U.S. demand for Ontario's automotive and forestry products. Despite these challenges, Ontario's real gross domestic product (GDP) was 7.5 per cent higher in 2006 than in 2003. Ontario job creation has been solid, with 327,000 net new jobs created since October 2003 — 74 per cent of which are full time. The Ontario economy has shown considerable resilience in these challenging times, with growth in output and employment above the average private-sector forecast in two of the past three years.

Ontario Real GDP and Employment — Chart 1



e = estimate for real GDP
Sources: Statistics Canada and Ontario Ministry of Finance

The Ontario economy is poised for stronger economic growth over the next few years. Businesses have remained confident, investing almost $147 billion in physical capital over the past three years. The Ontario Government has also made significant investments in the economy, as outlined in Chapter I, Section G: *Investing in Ontario's Infrastructure*. These investments will help transform Ontario's economy to compete and succeed in the 21st century.

Increasing employment and wages have boosted disposable income by more than 12 per cent over the past three years. There has been very strong employment growth in sectors paying above-average wages such as finance, education, health care, construction and professional services. Consumer spending has remained robust, growing by over 11 per cent in constant dollar terms since 2003. Ontario exports have continued to grow, with healthy increases in interprovincial exports as Ontario industries have taken advantage of the western provinces' booming economies.

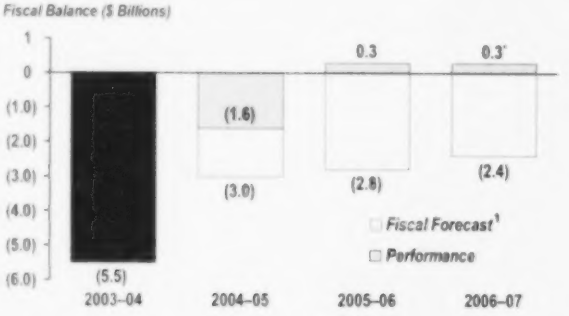
The ability of the Ontario economy to grow and attract investment, despite recent external challenges, reflects its strong fundamentals and sound economic management. The Province's highly skilled workforce, high quality of life, universal medical care, sound public infrastructure and competitive taxes are all important parts of its competitive advantage. These strengths will help Ontario thrive with a technology-driven, innovative economy. The government's role in fostering an environment that contributes to long-term growth is discussed further in Chapter I, Section F: *Expanding Opportunities for Economic Growth*.

Achieving Fiscal Balance

When the government came to office in 2003, an independent review of Ontario's finances concluded that the Province was on track to post a significant deficit in 2003–04, which has since been confirmed to have been $5.5 billion. Ontario has made progress to eliminate the structural deficit through prudent and disciplined fiscal management, while taking a balanced approach to investing in key priority areas.

This disciplined plan to eliminate the structural deficit has yielded results. The government has exceeded its planned deficit targets in each fiscal year since 2003–04. In 2004–05, the deficit was reduced to $1.6 billion, and in 2005–06 the Province posted a surplus of $0.3 billion.

Ontario's Fiscal Performance **Chart 2**



1. Based on the fiscal plan outlined in the 2005 Ontario Budget.
Interim forecast presented in the 2007 Ontario Budget.
Source: Ontario Ministry of Finance.

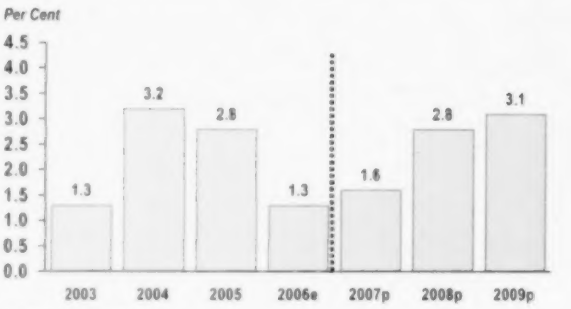
This fiscal year, higher revenues combined with lower interest on debt expense have enabled the government to project a surplus of $0.3 billion for 2006–07 while continuing to make investments in priority areas such as health, education, infrastructure and postsecondary education. This is a significant improvement upon the 2006 Ontario Budget projection for a $2.4 billion deficit in 2006–07, and would be the Province's second consecutive surplus.

Ontario's Medium-Term Economic and Fiscal Outlook

Ontario's Outlook for Stronger Economic Growth

Ontario's economic growth is expected to strengthen over the 2007 to 2009 period. This is based on signs that growth improved late in 2006 as well as positive developments unfolding in the global economic environment. The growth outlook is also enhanced by significant economic investments, including over $190 million for an economic stimulus package announced in the *2006 Economic Outlook and Fiscal Review* to accelerate infrastructure investments while creating local jobs, invest in Ontario tourism, promote interprovincial trade opportunities, and assist laid-off workers with training and re-employment plans.

Ontario Real GDP Growth **Chart 3**



e = estimate; p = projection
Sources: Statistics Canada and Ontario Ministry of Finance.

Recent economic indicators point to stronger economic growth for Ontario. Preliminary estimates indicate that real GDP growth strengthened in the October to December quarter of 2006. Employment growth accelerated over the final months of 2006 and into 2007, with the creation of more than 70,000 new jobs since September 2006. Retail sales strengthened in the final two months of the year, rising by a cumulative 3.6 per cent. There was also a resurgence in Ontario's international exports, which rebounded by more than five per cent in the fourth quarter of 2006.

The global economic environment is unfolding more favourably for Ontario. The outlook for oil prices, the Canadian dollar and U.S. economic growth are all more positive than they were a few months ago. Private-sector forecasters are now projecting lower oil prices over the next three years compared to last fall. This would be positive for the Ontario economy, since lower oil prices reduce business costs and leave consumers with more disposable income to spend on goods and services. The Canadian dollar is expected to be slightly weaker over the next three years compared to 2006, reducing some of the challenges that Ontario's export-oriented manufacturing businesses have faced. The outlook for the U.S. economy has also become more upbeat in recent months. Inflation is well contained, and current signs are that the Bank of Canada will keep interest rates stable in the coming year.

Ontario is expected to create an additional 270,000 jobs over the next three years, and its unemployment rate is expected to fall to an average of 6.1 per cent in 2009 — the lowest rate since 2000. The government's infrastructure investments and energy initiatives (as outlined in Chapter I, Section G: *Investing in Ontario's Infrastructure*) will create almost half a million jobs over the next several years. Strong job growth and solid wage gains will lead to robust income growth. Rising incomes, low interest rates and increasing wealth will support growing household spending. Business investment spending is expected to remain buoyant as firms invest to improve their competitive position. Ontario's trade is expected to bounce back as U.S. auto demand picks up and new auto product lines come on stream. For more information, see Section C: *Ontario's Economic Outlook*.

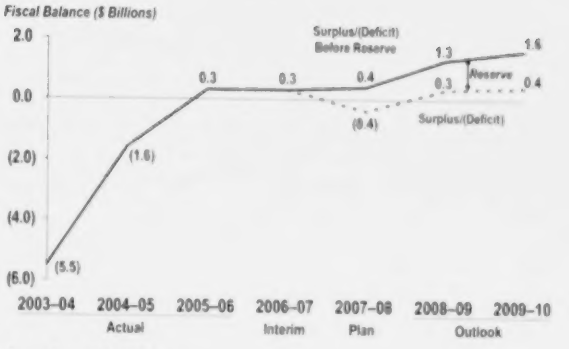
There are no tax increases in this Budget. The growing Ontario economy will drive taxation revenue growth over the next three years. Tax reductions introduced previously and in this Budget result in modest reductions in the growth of taxation revenues projected over the next three years. Revenue growth will enable the government to continue making key investments in Ontario while balancing the budget. For further details, see Section D: *Ontario's Revenue Outlook*.

Ontario's Medium-Term Fiscal Outlook

This fiscal year, higher revenues combined with lower interest on debt expense have enabled the government to project a surplus of $0.3 billion for 2006–07, the Province's second consecutive surplus. This is a significant improvement upon the 2006 Ontario Budget projection for a $2.4 billion deficit in 2006–07.

The government is committed to maintaining balanced budgets. The medium-term fiscal outlook now projects surpluses of $0.4 billion in 2007–08, $1.3 billion in 2008–09 and $1.6 billion in 2009–10, if the reserve is not required. This considerable improvement in the Province's fiscal position means that, if the reserve is not required in 2007–08, the Province is on track to post five consecutive fiscal surpluses between 2005–06 and 2009–10.

Ontario's Medium-Term Fiscal Plan **Chart 4**



Source: Ontario Ministry of Finance

The medium-term fiscal outlook continues to maintain the government's commitment to keep the overall growth in spending better aligned with revenue growth. Annual growth in total expense over the medium term is expected to average 2.7 per cent, which is less than the 3.4 per cent average annual growth in revenue forecast over the same period.

The Province's debt-to-GDP ratio is projected to continue to improve to 17.4 per cent by 2009–10, compared to 25.2 per cent in 2003–04.

Five consecutive fiscal surpluses, a prudent and improving debt-to-GDP ratio combined with ongoing strategic investments in key priorities will continue to strengthen the economy and ensure that Ontario is well positioned to manage both the challenges and opportunities ahead.

For more information, see Section E: *Ontario's Fiscal Outlook*. Fiscal tables and graphs are summarized in Section G: *Details of Ontario's Finances*.

SECTION B: 2006–07 INTERIM FISCAL PERFORMANCE

The government has eliminated the $5.5 billion deficit it inherited and is projecting its second consecutive surplus in 2006–07. In fact, while the 2006 Budget projected a $2,350 million deficit this year, the Province is currently on track to achieve a modest surplus of $310 million for 2006–07.

Total revenues in 2006–07 are projected to be $89,143 million, a 4.0 per cent increase over the 2006 Budget projection.

Total expense is projected to increase to $88,833 million, an increase of $1,753 million from the 2006 Budget Plan.

2006–07 IN-YEAR FISCAL PERFORMANCE **TABLE 1**
($ MILLIONS)

	Budget Plan	Interim	In-Year Change
Revenue	**85,730**	**89,143**	**3,413**
Expense			
Programs	77,651	79,992	2,341
Interest on Debt	9,429	8,841	(588)
Total Expense	87,080	88,833	1,753
Surplus/(Deficit) Before Reserve	**(1,350)**	**310**	**1,660**
Reserve	1,000	–	(1,000)
Surplus/(Deficit)	**(2,350)**	**310**	**2,660**

Source: Ontario Ministry of Finance.

The $1.0 billion reserve, included in the 2006 Budget Plan to help achieve the government's overall fiscal objectives and protect against unexpected and adverse changes in the economic and fiscal outlook, was not required.

The 2006–07 interim results reported in this Budget are based on the best information available as of early March 2007. Given the preliminary nature of these estimates, interim projections are subject to change as actual year-end revenue and expense are finalized in the 2006–07 Public Accounts.

In-Year Revenue Performance

Total revenue in 2006–07 is currently estimated at $89,143 million, an increase of $3,413 million from the 2006 Budget Plan.

Summary of In-Year Changes to Revenue in 2006–07
($ Millions)

Table 2

		Interim 2006–07
Taxation Revenue		
Personal Income Tax	1,614	
Corporations Tax	631	
Employer Health Tax	62	
Tobacco Tax	(217)	
Land Transfer Tax	78	
Electricity Payments-in-Lieu of Taxes	(84)	
All Other Taxes Combined	132	
		2,216
Government of Canada		
2006 Federal Budget Trusts	456	
All Other Government of Canada	140	
		596
Income from Government Enterprises		
Ontario Lottery and Gaming Corporation	84	
Liquor Control Board of Ontario	36	
Ontario Power Generation Inc. and Hydro One Inc.	(46)	
All Other Government Enterprises Combined	(6)	
		68
Other Non-Tax Revenue		
Sales and Rentals	595	
Power Sales	(181)	
Other	119	
		533
Total Revenue Changes		**3,413**

Source: Ontario Ministry of Finance.

Revenue Changes

- **Personal Income Tax** (PIT) revenues are estimated to be $1,614 million above forecast. Since the 2006 Budget, processing of 2005 and prior-year tax returns has increased revenues above the estimates in the 2006 Budget and the 2005–06 Public Accounts. Higher revenues in 2005–06 than estimated in the 2006 Budget increase the base upon which growth is applied in estimating PIT revenues for 2006–07 and beyond. This base increase is partially offset by the impact of slower wages and salaries growth than projected in the 2006 Budget. Higher revenues than estimated in the 2005–06 Public Accounts resulted in a $1,137 million one-time increase in revenues in 2006–07 as higher prior-year revenues than included in past Public Accounts are reflected in the current year. In addition, a re-estimation by the federal government of unapplied tax amounts owing to Ontario for the 2003 taxation year resulted in a one-time payment of $134 million to the Province in 2006–07.

- **Corporations Tax** (CT) revenues for 2006–07 are estimated to be $631 million above forecast. The increase is net of a one-time negative adjustment of $114 million resulting from an overestimation of 2005–06 CT revenues in the Public Accounts. CT revenues were especially strong in December and February, reflecting final 2006 tax remittances from most Ontario corporations. Higher CT revenues than projected despite lower 2006 corporate profits suggests that the composition of pre-tax corporate profit has had a larger-than-usual influence on the relationship between CT revenues and profits.

- The **Employer Health Tax** is $62 million above the 2006 Budget forecast based on stronger-than-expected tax collection experience, likely related to taxes paid on stock options.

- **Tobacco Tax** revenue is estimated to be $217 million below forecast, reflecting healthier lifestyles among Ontarians and the impact of the *Smoke-Free Ontario Act* that came into effect on May 31, 2006. The contraband tobacco market, which is a problem in many parts of North America and Europe, has also had an impact on revenues. Ontario continues to strengthen enforcement to address the contraband tobacco market. For further details, see Chapter III: *Ontario's Tax System Supports Expanded Prosperity*.

- **Land Transfer Tax** is estimated to be $78 million above forecast because the combined 2006 growth in housing resales and resale prices was higher than projected in the 2006 Budget.

- **Electricity Payments-in-Lieu of Taxes** are expected to be $84 million below forecast, largely reflecting the impact of lower-than-projected electricity demand and prices.

- The net change in **all other taxation** revenues combined is estimated at $132 million above forecast, mostly due to mining profits tax revenue arising from high profits in the mining sector.

- **Government of Canada Transfers** are $596 million above forecast. This increase is largely due to trusts announced in the 2006 federal budget worth $456 million for Ontario in 2006–07: $195 million from the Postsecondary Education Infrastructure Trust; $117 million from the Public Transit Capital Trust; $117 million from the Affordable Housing Trust; and $27 million from the Off-Reserve Aboriginal Housing Trust. Formula-based entitlements from the Canada Health Transfer and the Canada Social Transfer are also higher than forecast as a result of changes in provincial shares of the national personal and corporate income tax bases.

- **Net Income from Government Business Enterprises** is projected to be $68 million above forecast. Higher-than-projected net incomes from the Ontario Lottery and Gaming Corporation (OLG) and the Liquor Control Board of Ontario (LCBO) are partially offset by lower-than-projected combined net income of Ontario Power Generation Inc. (OPG) and Hydro One Inc. (HOI). Higher OLG net income is primarily due to the performance of the Niagara Casinos and lotteries. Improved LCBO net income reflects stronger-than-projected sales, a consumer shift to higher-margin products, and improved expense controls. The combined net income of OPG and

HOI in 2006–07 is lower than forecast in the 2006 Budget, primarily due to lower electricity prices and demand.

- **Other Non-Tax Revenue** is projected to be $533 million above the 2006 Budget forecast mainly due to $595 million higher Sales and Rentals revenue, primarily as a result of $573 million from the previously announced Teranet Initial Public Offering (IPO) of June 16, 2006. This increase is partially offset by lower-than-projected Ontario Electricity Financial Corporation (OEFC) power sales from contracts with non-utility generators. The decrease in power sales is fiscally neutral as it is fully offset by lower expenses from OEFC power purchases from non-utility generators. Other revenues increase largely due to higher reimbursements for services provided by the Province and higher recoveries of prior-year expenditures.

In-Year Expense Performance

Total expense in 2006–07 is currently projected to be $88,833 million, an increase of $1,753 million from the 2006 Budget forecast. This increase is primarily due to additional investments in Ontario's health sector, and spending in priority areas financed by about $1 billion in one-time proceeds from both the Teranet IPO and revenue from the federal trusts announced in the 2006 federal budget. Other key areas of increased spending in 2006–07 include transit and roads, social services, municipalities, rural infrastructure, and education.

SUMMARY OF IN-YEAR EXPENSE CHANGES IN 2006–07
($ MILLIONS)

TABLE 3

	Interim[1] 2006–07
Program Expense Changes:	
Transit and Roads	819
Health Sector Funding	568
Agriculture, Rural and Resources Sector Support	279
Social Services	199
Training, Colleges and Universities	191
Municipalities and Housing	157
Education Sector	114
Justice Sector	98
All Other (net) Program Expense Changes	(84)
Total Program Expense Changes[2]	**2,341**
Interest on Debt Savings	**(588)**
Total In-Year Expense Changes	**1,753**

[1] Excludes the impact of adjustments made in the 2007 Budget to reflect transfers from various ministries to school boards, hospitals and colleges.

[2] Includes one-time spending of about $1.0 billion financed by the Teranet IPO and the 2006 federal trusts.

Sources: Ontario Ministries of Finance and Public Infrastructure Renewal.

Expense Changes

Total expense increased by $1,753 million in-year from the 2006 Budget forecast. This is due to an increase in program expense of $2,341 million, offset by $588 million in interest on debt savings.

- Highlights of key expense changes relating to **Transit and Roads** in the Ministry of Transportation include:
  - in 2006-07, Ontario will invest $277 million for transit infrastructure, distributed to municipalities on the basis of transit ridership. Ontario will also provide $75 million to municipalities, also to be distributed on the basis of transit ridership, for public transit capital
  - a $150 million increase for the contribution to the City of Toronto to help fund the replacement and refurbishment of Toronto Transit Commission (TTC) vehicles. This contribution recognizes the unique funding requirements of the TTC — Canada's largest municipal transit agency
  - an additional $197 million to meet commitments to improve and expand the TTC system.
- An in-year increase of $568 million for **Health Sector Funding**, including $109 million to enhance the government's Wait Times Strategy, $115 million for hospitals to improve efficiency and address operational pressures, and $104 million to implement the Emergency Department Action Plan and accommodate pressures related to Ontario Drug Programs.
- Highlights of key expense changes relating to the **Agriculture, Rural and Resources Sector** include:
  - a one-time increase of $96 million for assistance to farmers to match the federal Canadian Agricultural Income Stabilization Inventory Transition Initiative, $5 million to support horticulture producers, and $3 million to support marketing initiatives for Ontario farm products
  - an investment of $140 million in the Ministry of Public Infrastructure Renewal for **rural communities** to support projects such as water and wastewater infrastructure and roads and bridges: $70 million of this funding was announced in September 2006, and this Budget increases the commitment by a further $70 million
  - an additional $28 million that was provided to the **Ministry of Natural Resources** in-year to start the Northern Pulp and Paper Mill Electricity Transition Program.
- An in-year increase of $199 million to the **Children's and Social Services Sector**, to support the delivery of social assistance, child protection and developmental services.

- The **Ministry of Training, Colleges and Universities**, including the net expense of Ontario's colleges of applied arts and technology, increased by a net $191 million in-year, primarily due to an additional $210 million in one-time funding provided to universities; as well as an additional $51 million provided by the federal–provincial Labour Market Development Agreement. This increased funding was partially offset by the removal of the anticipated funding under the federal Labour Market Partnership Agreement, which was not concluded.

- An increase of $157 million for **Municipalities and Housing**, mainly due to $127 million in capital grants, provided to municipal service managers for affordable housing initiatives.

- The **Education Sector** increased by a net $114 million, primarily due to an in-year increase of $12 million for assistance to education partners, and an increase in **School Boards'** net expense of $108 million in-year. School board net expense increased primarily due to increased provincial grants to support higher student achievement, as well as higher school board spending than originally anticipated in the 2006 Budget.

- **Justice Sector** expense increased in 2006–07 by $98 million primarily due to extraordinary costs for increased victims services, Caledonia policing, courts and correctional services.

- **Other changes**, which amount to a net decrease in expense of $84 million in 2006–07, mainly reflect lower pension expenses, primarily due to lower-than-projected current period benefit costs; and lower expenses from Ontario Electricity Financial Corporation (OEFC) power purchases from non-utility generators. The decrease in power purchase expense is fiscally neutral as it is fully offset by lower-than-projected power sales from contracts with non-utility generators.

- **Interest on Debt** expense decreased by $588 million in-year due to cost-effective debt management and lower-than-forecast long-term interest rates.

Section C: Ontario's Economic Outlook

This section outlines Ontario's current macroeconomic outlook, which is the basis for the revenue outlook outlined in Section D: *Ontario's Revenue Outlook*. The economic forecast underlying the fiscal plan is intended to be prudent. The Ministry of Finance's real GDP growth planning projection is below the average private-sector forecast every year.

The Ministry of Finance is projecting Ontario real GDP growth of 1.6 per cent in 2007. Ontario's growth rebounded in the fourth quarter of 2006 and is expected to strengthen through 2007 as U.S. demand picks up steam and the lower Canadian dollar and oil prices stimulate economic activity. Real GDP growth is expected to improve over the medium term, with the Ministry of Finance projecting growth of 2.8 per cent in 2008 and 3.1 per cent in 2009. Improving growth over the medium term reflects a more favourable global economic environment, along with Ontario's strong fundamentals. Business investment spending is expected to lead growth as firms invest to improve their competitive position. Strong income gains, low interest rates and increasing wealth will support growing household spending. Ontario's trade is expected to turn around as U.S. auto demand picks up and new auto product lines come on stream.

The moderation in oil prices and the lower Canadian dollar are both welcome developments. Oil prices are currently trading at around $60 US per barrel, down from a peak of over $78 US last July. Private-sector forecasters expect oil prices to average $60 US per barrel in 2007 — more than $6 US per barrel lower than in 2006. The Canadian dollar has fallen to around 85 cents US recently, from a peak of over 91 cents US in May 2006. Private-sector forecasters expect the exchange rate to average under 86 cents US for 2007, down over 2 cents US from 2006. U.S. economic growth is expected to improve through 2007 and strengthen over the medium term. Interest rates are expected to remain low over the foreseeable future.

Ontario Economic Outlook **Table 4**

(Per Cent)

	2004	2005	2006	2007p	2008p	2009p
Real GDP Growth	3.2	2.8	1.3e	1.6	2.8	3.1
Nominal GDP Growth	4.9	3.9	2.9e	3.1	4.7	4.7
Unemployment Rate	6.8	6.6	6.3	6.3	6.2	6.1
CPI Inflation	1.9	2.2	1.8	1.3	1.9	1.9

e = estimate; p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

Private-Sector Economic Forecasts

Economic projections are a key building block upon which the government's fiscal plan is based. To establish reasonable and accountable economic projections, the Ministry of Finance consults extensively with private-sector forecasters. The Minister of Finance met with Ontario Economic Forecast Council members and other private-sector forecasters twice over the past year, in the process of preparing the *2006 Economic Outlook and Fiscal Review* and the 2007 Budget. Through these meetings, the Minister received their independent expert opinion on the outlook for the Ontario economy and economic policy advice.

Ontario Economic Forecast Council

As part of the *Fiscal Transparency and Accountability Act, 2004*, the Minister of Finance has established the Ontario Economic Forecast Council to provide advice on economic projections and assumptions. Council members are Peter Dungan from the University of Toronto, Ernie Stokes from the Centre for Spatial Economics, Dale Orr from Global Insight and Glen Hodgson of the Conference Board of Canada. Forming the council ensures that the Ontario Government's economic forecasts take into account the expertise and viewpoints of non-government experts. Council members were asked to review the economic assumptions underlying this Budget as of March 1, 2007. The members who were able to respond to this request provided letters stating that the forecast was reasonable.

Private-sector forecasters generally expect Ontario real GDP growth to strengthen over the next three years. The average of private-sector forecasts for Ontario real GDP growth is 1.7 per cent in 2007, 2.9 per cent in 2008 and 3.2 per cent in 2009. Ministry of Finance planning assumptions used to develop the fiscal plan are deliberately prudent, and are below the private-sector average every year.

Private-Sector Forecasts for Ontario Real GDP Growth **Table 5**
(Per Cent)

	2007	2008	2009
Conference Board of Canada (February)	1.9	3.3	3.3
Global Insight (January)	1.4	3.1	3.0
Centre for Spatial Economics (January)	1.8	2.9	3.2
University of Toronto (January)	1.6	3.0	3.4
RBC Financial Group (January)	2.0	3.1	–
Scotiabank Group (February)	1.6	2.4	–
TD Bank Financial Group (January)	1.6	3.4	–
BMO Capital Markets (January)	1.7	2.4	–
CIBC World Markets (February)	1.4	2.6	–
Private-Sector Survey Average	1.7	2.9	3.2
Ontario's Planning Assumption	1.6	2.8	3.1

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 1, 2007).

More Favourable Economic Environment

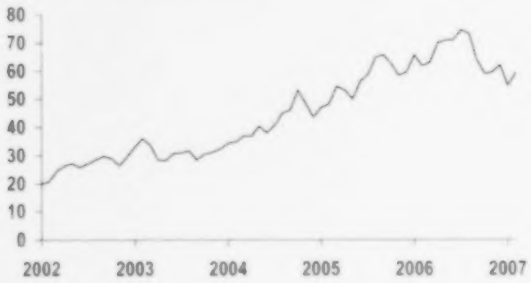
The short-term Ontario economic outlook is strongly influenced by external factors, such as oil prices, the Canadian dollar exchange rate, U.S. economic growth and interest rates. The next section discusses the more favourable outlook for external factors in greater detail as well as the forecast for Ontario's exports. This is followed by a discussion of the outlook for jobs, household spending and investment.

Lower Oil and Gas Prices Provide Relief for Ontario Consumers and Businesses

Oil prices are projected to ease over the forecast horizon as increased refining and production capacity comes on stream. Ontario imports virtually all of its oil and natural gas requirements. Lower oil and gas prices cut costs for Ontario businesses and households, resulting in higher real disposable income. This frees up more money to spend on other goods and services.

Crude Oil Prices Chart 5

$ US Per Barrel, West Texas Intermediate



Source: New York Mercantile Exchange

Crude oil prices averaged $66.10 US per barrel in 2006, marking the fifth consecutive year that oil prices rose. However, progress has been made to reduce the impact of higher energy prices. The Ontario economy is over 50 per cent more energy efficient now than it was during the oil shocks in the 1970s.

The average private-sector forecast for oil prices is currently $60 US per barrel for 2007. This would be the first annual decline in oil prices since 2001. Projections for oil prices range from $57 US per barrel to $69 US per barrel in 2007. As new global production and refining capacity comes online over the medium term, forecasters expect oil prices to average roughly $60 US per barrel per year in 2007 through 2009.

Oil Price Outlook ($ US Per Barrel) Table 6

	2007p	2008p	2009p
Private-Sector Average	60.0	59.7	60.0
High	69.0	68.0	62.5
Low	57.0	50.0	55.3
Ministry of Finance	61.0	61.0	61.0

p = projection.

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 1, 2007).

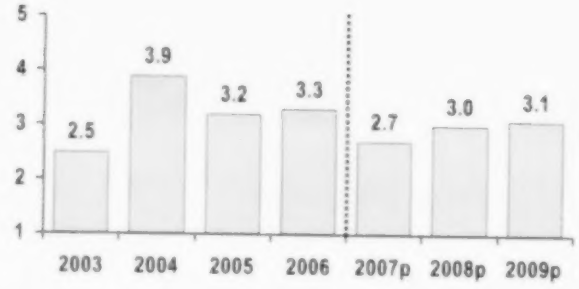
Natural gas prices averaged $6.99 US per million British thermal units (MMBtu) in 2006, down from a record annual average of $9.00 US per MMBtu in 2005. Forecasters generally expect natural gas prices to average about $7.50 US per MMBtu each year over the forecast horizon.

U.S. Economic Growth to Strengthen

Growth in the United States is expected to strengthen through 2007 and expand at a solid pace over the medium term. The U.S. economy is vital to Ontario's economic performance, particularly as the province's largest export market.

Private-sector forecasters, on average, call for U.S. real GDP growth of 2.7 per cent in 2007, 3.0 per cent in 2008 and 3.1 per cent in 2009. However, there are risks to the U.S. outlook. House prices have peaked and the recent slowing and outright declines in certain regions of the country have dragged down residential construction. Lower house prices have also reduced the funds available through mortgage equity withdrawal for consumer spending. However, the negative impact of the housing deterioration has been offset by robust labour income growth and lower energy prices, both of which have supported consumer spending.

U.S. Real GDP Growth **Chart 6**

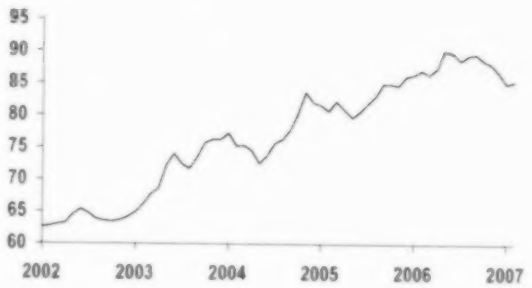


p = private-sector survey average
Sources: U.S. Bureau of Economic Analysis and Blue Chip Economic Indicators (February 2007)

The Canada–U.S. Exchange Rate Expected to Stabilize

After strengthening against the U.S. dollar for four consecutive years, the Canadian dollar is forecast to weaken in 2007 and then appreciate gradually in 2008 and 2009. This moderation will benefit Ontario's export-oriented manufacturing sector, improving its competitive position. It would also encourage U.S. travel to Ontario.

Canadian Dollar **Chart 7**



Source: Statistics Canada

The Canadian dollar appreciated from 61.8 cents US in January 2002 to a peak of over 91 cents US in May 2006, a 28-year high. Since then, the dollar has eased and currently trades at around 85 cents US. Still, on a trade-weighted basis, the Canadian dollar has appreciated more than any other major currency since the beginning of 2002, primarily reflecting rising commodity prices.

Forecasters predict softer oil prices, which are expected to keep the dollar close to its current value, improving the competitive position of Ontario's industries. The private sector expects the Canadian dollar to average 85.8 cents US in 2007, 87.2 cents US in 2008 and 87.3 cents US in 2009. For planning

purposes, it is assumed the Canadian dollar will average 86.0 cents US in 2007, 87.5 cents US in 2008 and 88.0 cents US in 2009.

Exports Set to Make a Strong Comeback

Ontario exporters will face continuing strong competitive pressures from newly industrializing economies but will benefit from a weaker Canadian dollar. Exports are equivalent to about 60 per cent of Ontario's economy. International exports account for about 70 per cent of total exports, with the balance going to other provinces.

THE CANADIAN DOLLAR OUTLOOK (CENTS US) **TABLE 7**

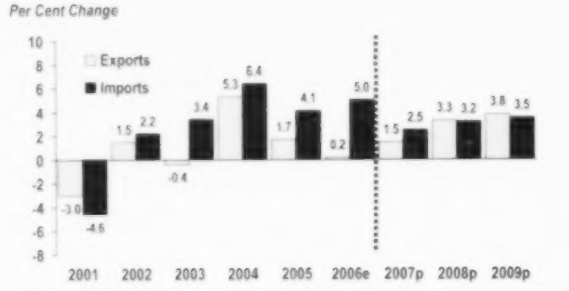
	2007p	2008p	2009p
Private-Sector Average	85.8	87.2	87.3
High	89.0	90.0	88.6
Low	83.7	85.3	86.2
Ministry of Finance	86.0	87.5	88.0

p = projection.
Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 1, 2007).

Exports rebounded strongly in the fourth quarter of 2006 and should continue to grow over the forecast period as U.S. auto demand picks up and new product lines come on stream. Exports are forecast to rise by 1.5 per cent in 2007 and by an average of 3.6 per cent in 2008 and 2009.

A strong Canadian dollar, weaker U.S. demand and competitive pressures in the auto industry negatively affected Ontario's exports in 2006. The volume of exports rose only 0.2 per cent in 2006, after rising 1.7 per cent in 2005.

Ontario Real International and Interprovincial Trade **Chart 8**



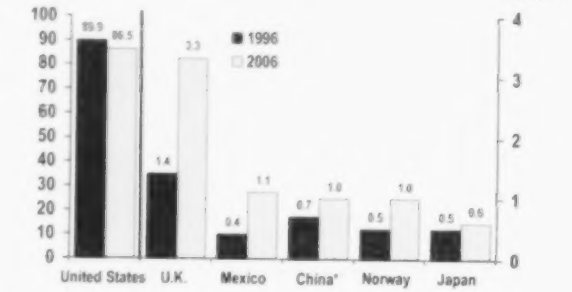
e = estimate, p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The auto sector accounted for 41 per cent of Ontario's international merchandise exports in 2006, with 97 per cent destined for the United States. Ontario automotive exports declined 7.6 per cent in 2006, reflecting weaker U.S. demand and industry restructuring. The outlook for 2007 suggests ongoing challenges, but growth is expected to resume in 2008. U.S. auto sales are anticipated to dip to 16.3 million units in 2007, down from 16.5 million units in 2006, before climbing back up to 16.5 million units in 2008.

Auto production is expected to be flat in Ontario in 2007, after declining over 4.0 per cent in 2006. With the opening of new production plants and the expectation of strong U.S. demand, the foundations have been laid for strong export growth in 2008. Ontario will continue to lead Michigan as the largest auto producer in North America. Ontario production is expected to increase sharply in 2008 as new product lines come on stream, including at the new Toyota plant in Woodstock.

Ontario's trade will continue to diversify as the share of interprovincial trade and exports to countries other than the United States continue to rise. Over the past five years, the value of merchandise exports to the rest of the world, excluding the United States, rose by 94 per cent. The European Union (EU) is Ontario's second-largest trading partner, accounting for over six per cent of Ontario's international exports. Exports to the EU have risen 110 per cent over the last five years and were up 27 per cent in 2006. Ontario exports to Mexico have risen 52 per cent over the last five years and were up almost 25 per cent in 2006. China accounts for one per cent of Ontario's international exports, but Ontario's exports to China have risen by 80 per cent over the past five years and by 18 per cent in 2006.

Ontario's Top Six Merchandise Export Partners **Chart 9**

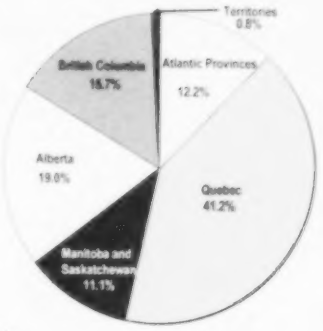


* Includes China, Hong Kong and Mongolia
Source: Statistics Canada

A number of initiatives have been taken to improve Ontario's international trade, including Premier McGuinty's January 2007 trade mission to India and Pakistan. Ontarians and their Indian counterparts signed dozens of cooperation agreements, including several reached by universities, colleges and research organizations. Ontario and Punjab, Pakistan's largest province, signed a joint declaration of cooperation designed to foster trade, investment and jobs and agreed to explore opportunities in a broad range of sectors. Although exports to India, consisting mainly of machinery and equipment, account for only 0.1 per cent of total Ontario international exports, they have grown by 231 per cent over the last five years.

The share of Ontario exports of goods and services to other provinces and territories has grown steadily in the last five years, climbing to about 30 per cent of total exports. Between 2001 and 2006, exports to other provinces grew nearly 15 per cent, while international exports were unchanged. Exports to other provinces rose 1.2 per cent in 2006, compared to a 1.0 per cent decline in international exports. Ontario is undertaking a number of measures to boost interprovincial trade, including trade missions to Alberta and exploring the merits of joining the Alberta–British Columbia Trade, Investment and Labour Mobility Agreement (TILMA).

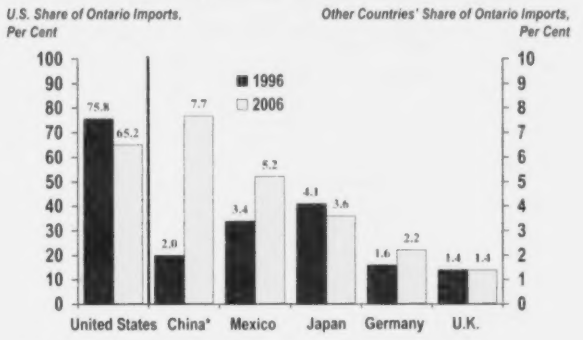
Share of Ontario Interprovincial Exports, 2003 **Chart 10**



Source: Statistics Canada

Ontario's imports grew in 2006 on the back of strong domestic demand. The stronger dollar encouraged imports of machinery and equipment, reflecting robust business investment. The United States accounted for most of the increase in merchandise imports, but other regions are also becoming more important. Imports from China, which consist mainly of consumer electronics such as computers, accounted for almost eight per cent of total international imports and rose 16 per cent in 2006. Import growth is expected to slow to 2.5 per cent in 2007 and then rebound in 2008 and 2009, rising by an average of 3.4 per cent per year.

Ontario's Top Six Merchandise Import Partners **Chart 11**



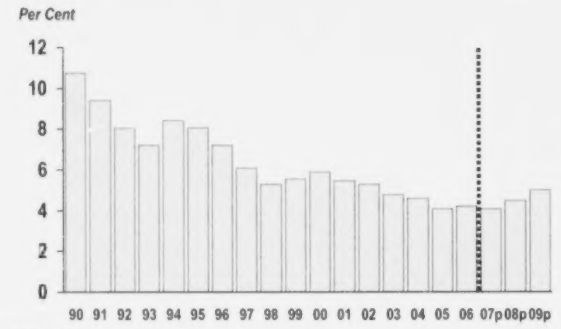
* Includes China, Hong Kong and Mongolia.
Source: Statistics Canada.

Interest Rates and Inflation to Remain Low

Interest rates are expected to remain low and inflation is expected to remain below 2.0 per cent over the medium term, providing a favourable environment for Ontario businesses, and encouraging new investment and greater productivity.

Since May 2006, the Bank of Canada has maintained its benchmark target for the overnight interest rate at 4.25 per cent. According to the Bank, the Canadian economy is operating at, or just above, its production capacity, and it views the risks between faster and slower inflation as balanced.

10-Year Government of Canada Bond Rate **Chart 12**



p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Private-sector forecasters generally expect interest rates to remain unchanged in 2007 and to rise modestly in 2008. Canadian three-month treasury bill rates are projected to average 4.1 per cent in 2007, 4.3 per cent in 2008 and 4.5 per cent in 2009. Ten-year Government of Canada bond yields are forecast to average 4.2 per cent in 2007, 4.7 per cent in 2008 and 5.1 per cent in 2009. Although interest rates are projected to edge higher over the medium term, they are expected to remain well below their historical averages.

Despite higher energy prices in 2006, overall inflation in Ontario averaged 1.8 per cent, down from 2.2 per cent in 2005. Excluding energy prices, the Ontario consumer price index (CPI) inflation rate has remained below two per cent since early 2004. The rising Canadian dollar has helped offset some of the

impact of higher energy prices on Ontario CPI inflation, lowering the price of imported goods. Looking forward, analysts generally expect the exchange rate to remain relatively stable and have little impact on inflation.

Ontario's CPI inflation rate is expected to fall to a nine-year low of 1.3 per cent in 2007, reflecting lower energy prices, the impact of the 1.0 percentage point GST reduction introduced on July 1, 2006 and gradual slowing in housing costs. A fire at Imperial Oil's refinery in Nanticoke in mid-February 2007 contributed to a gasoline shortage and a price surge. The impact on inflation will likely be temporary. Once the impact of the 2006 GST cut no longer affects year-to-year price changes and energy prices stabilize, CPI inflation is forecast to average 1.9 per cent in both 2008 and 2009.

CANADIAN INTEREST RATE AND INFLATION OUTLOOK **TABLE 8**
(ANNUAL PER CENT)

	2006	2007p	2008p	2009p
Three-month Treasury Bill Rate	4.0	4.1	4.3	4.5
10-year Government Bond Rate	4.2	4.2	4.7	5.1
Ontario CPI Inflation Rate	1.8	1.3	1.9	1.9

p = projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

Impact of Changes in the External Economic Environment

The growth rate of the U.S. economy, crude oil prices, interest rates and the exchange rate can have a significant influence on Ontario's economy. Table 9 shows the typical range for the first- and second-year impacts of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of changing circumstances can also have a substantial bearing on the actual outcome.

IMPACTS OF CHANGES IN KEY ASSUMPTIONS ON ONTARIO REAL GDP GROWTH[1] **TABLE 9**
(PERCENTAGE POINT INCREASE)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.2 to 0.9	0.7 to 1.4
World Crude Oil Prices Decrease by $10 US per Barrel	0.3 to 0.7	0.1 to 0.5
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

[1] Impacts based on changes being sustained.
Source: Ontario Ministry of Finance.

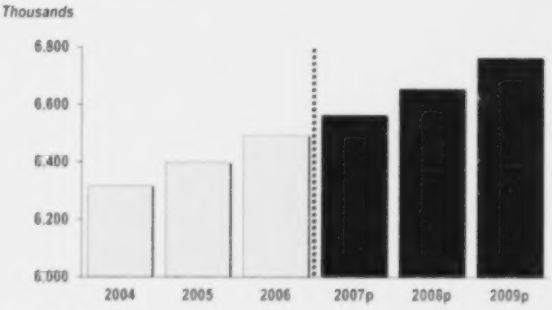
Ontario's Domestic Economic Outlook

This section presents the forecast for job creation, income growth, household spending and business investment.

270,000 More Jobs Expected Over Next Three Years

Ontario's job creation is expected to continue as the economy grows. Since October 2003, 327,000 jobs have been created, with full-time positions accounting for almost three-quarters of the increase. Over the 2007 to 2009 period, 270,000 jobs are projected, consistent with private-sector forecasts. The unemployment rate is expected to fall as job gains exceed the projected increase in the labour force.

Ontario Employment **Chart 13**

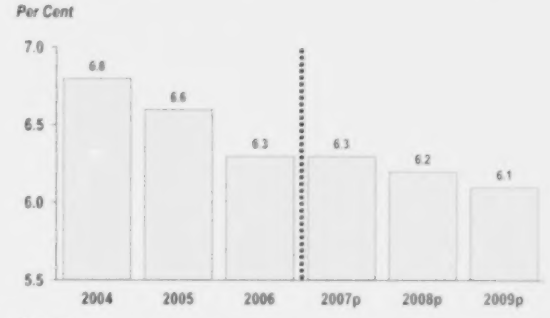


p = projection
Sources: Statistics Canada and Ontario Ministry of Finance

Ontario's economy added 95,000 net jobs in 2006 — a 1.5 per cent increase. These job gains pushed Ontario's unemployment rate down to 6.3 per cent — the lowest annual rate in five years. A healthy labour market performance resulted in solid wage gains. The average hourly wage rate for all employees, both permanent and temporary, was $20.65 in 2006 — up 2.9 per cent from 2005.

Ontario is expected to create an additional 71,000 jobs this year, an increase of 1.1 per cent. Employment growth is expected to pick up to 1.4 per cent or 90,000 jobs in 2008 and 1.6 per cent or 109,000 jobs in 2009. Forecasting the unemployment rate is more uncertain given its sensitivity to assumptions regarding population growth and changing participation rates. Solid employment growth along with the Ministry of Finance's projection of relatively slower labour-force growth should lower Ontario's unemployment rate to 6.1 per cent by 2009. Steady gains in employment and solid wage increases will mean rising incomes for Ontario workers. Labour income is forecast to rise by 3.9 per cent this year and by an average of 4.9 per cent in 2008 and 2009.

Ontario Unemployment Rate **Chart 14**



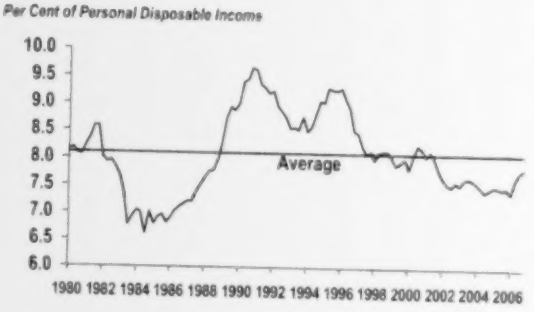
p = projection
Sources: Statistics Canada and Ontario Ministry of Finance

Personal income grew strongly in 2006, rising by 4.6 per cent, reflecting a 4.2 per cent rise in labour income and strong growth in investment income. Income growth far outstripped the 1.8 per cent inflation rate. Personal income is projected to rise by 3.9 per cent in 2007 and by an average of 4.8 per cent in 2008 and 2009.

Solid Household Spending to Continue

Rising incomes, low interest rates and increasing wealth will support growing household spending. However, the pace of spending is projected to moderate as housing-related purchases are forecast to slow as fewer people buy homes.

Canadian Household Debt Interest Costs **Chart 15**



Sources: Finance Canada and Statistics Canada.

Ontario household finances are in good shape to support consumer spending over the medium term. Canadian household debt costs as a share of after-tax income was 7.8 per cent in the fourth quarter of 2006, below the 8.1 per cent average over 1980 to 2006. Steadily rising incomes and historically low interest rates have helped keep interest costs low as a percentage of income.

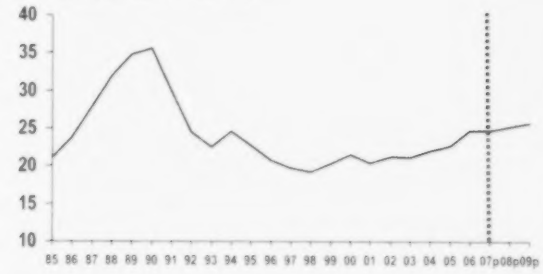
Real consumer spending grew by an estimated 4.0 per cent last year, supported by strong income gains and low interest rates. Consumer spending on goods and services is projected to moderate, growing by 2.8 per cent in 2007, reflecting weaker labour income growth. Over 2008 and 2009, consumer spending is forecast to grow by an average of 2.9 per cent per year, in line with growth in real personal disposable income.

Retail sales rose 4.1 per cent in 2006, following a 4.7 per cent increase in 2005. Most home-related stores saw buoyant growth as consumers continued renovating and decorating their homes. However, the softening of the housing market is expected to dampen these purchases in the future. Sales in the auto sector grew 3.8 per cent in 2006 as gasoline and used and recreational motor vehicles and parts sales were vigorous, offsetting weakness in new vehicle sales, which were up just 0.1 per cent. The moderation in new car sales is expected to continue into 2007, which will limit overall retail sales growth since new car sales account for about 20 per cent of Ontario retail sales. Retail sales are expected to rise by 3.6 per cent this year and pick up over the medium term, averaging 4.6 per cent over the 2008 and 2009 period.

Moderate house-price increases, a favourable mortgage rate outlook and relatively strong income growth will continue to make the housing market affordable to new homebuyers. In addition, sustained strong international immigration will boost overall population and lead to nearly 280,000 new households during the next four years, providing a solid foundation for ongoing housing market activity. While the housing market is expected to remain healthy, it will likely continue to moderate from recent highs. Housing starts are expected to ease to 68,000 units in 2007 and 67,000 units in 2008, and then improve to 68,000 units in 2009. The number of home resales is expected to fall by 2.7 per cent in 2007 and a further 3.5 per cent in 2008 and then rebound by 4.0 per cent in 2009.

Mortgage Payments **Chart 16**

Per Cent of After-Tax Household Income



p = projection
Note: The average monthly carrying costs for an average-priced home as a share of after-tax household income, based on payments amortized over 25 years and a 25 per cent down payment.
Sources: Bank of Canada, Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance

Softer demand has contributed to more moderate house price gains. The average resale price of a home in Ontario rose by 5.9 per cent in 2006, compared with an average increase of 7.7 per cent in the previous two years. Resale prices are expected to increase by 3.0 per cent in 2007 and by an average of 2.7 per cent in 2008 and 2009.

Strong Investment Spending to Continue

Increased investment in Ontario creates better jobs, leading to stronger productivity and higher living standards. The government's strategic investments in a well-educated and highly skilled population; a high-quality health care system; reliable, modern infrastructure; and key sectors have created a strong competitive environment that attracts investment. The government is also proposing to improve Ontario's already competitive tax environment as outlined in Chapter III: *Ontario's Tax System Supports Expanded Prosperity*. Business investment is expected to lead growth, reflecting the positive investment climate. Business balance sheets remain very healthy, as the Canadian debt-to-equity ratio continues to fall and the interest coverage ratio, which measures the earnings available to cover interest expenses, remains high — reflecting low interest rates and manageable debt levels.

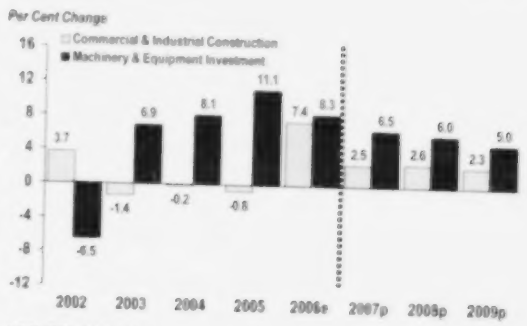
Business Balance Sheets Are Strong **Chart 17**

Canadian Ratio of Debt-to-Equity

Source: Statistics Canada

Last year was another solid year for business investment. Spending on machinery and equipment remained robust, with estimated real growth of 8.3 per cent in 2006. At the same time, investment in commercial and industrial construction improved significantly, growing by an estimated 7.4 per cent.

Real Business Investment **Chart 18**



e = estimate, p = projection
Sources: Statistics Canada and Ontario Ministry of Finance

Investment in machinery and equipment is an important source of productivity growth, as it often embodies technological advances. Real investment in machinery and equipment is projected to rise by a solid 6.5 per cent in 2007 and by an average of 5.5 per cent per year in 2008 and 2009.

Commercial and industrial construction will also continue to grow, reflecting strong growth in utilities, transportation and warehousing, retail trade and finance, insurance and real estate. Outlays are projected to advance an average of 2.5 per cent a year from 2007 to 2009.

Corporate profits declined by 0.2 per cent in 2006, largely reflecting the weakness in the manufacturing sector and the negative impact of the rising dollar. Profits as a share of GDP were 11.6 per cent in 2006, well above the historical average of 9.9 per cent. Corporate profits are projected to increase by 1.1 per cent in 2007 and improve in 2008 and 2009, rising by an average 2.5 per cent. Forecasting corporate profits is particularly challenging given their year-to-year volatility. For planning purposes, the Ministry of Finance is projecting very modest and prudent increases in corporate profits, based largely on private-sector forecasts of the ratio of profits to nominal GDP. The resulting projections of corporate profits are quite prudent compared to the strong profit growth experienced in Ontario in recent comparable periods of strengthening economic growth.

Details of the Ontario Economic Outlook

This table shows the key details of the updated economic outlook for the 2007 to 2009 period.

The Ontario Economy, 2005 to 2009 **Table 10**
(Per Cent Change)

	Actual		Projected		
	2005	2006	2007	2008	2009
Real Gross Domestic Product	2.8	1.3e	1.6	2.8	3.1
Personal consumption	3.7	4.0e	2.8	2.8	2.9
Residential construction	1.8	0.3e	(3.0)	0.9	2.5
Non-residential construction	(0.8)	7.4e	2.5	2.6	2.3
Machinery and equipment	11.1	8.3e	6.5	6.0	5.0
Exports	1.7	0.2e	1.5	3.3	3.8
Imports	4.1	5.0e	2.5	3.2	3.5
Nominal Gross Domestic Product	3.9	2.9e	3.1	4.7	4.7
Other Economic Indicators					
Retail sales	4.7	4.1	3.6	4.6	4.6
Housing starts (000s)	78.8	73.4	68.0	67.0	68.0
Personal income	4.5	4.6e	3.9	4.7	4.9
Wages and salaries[1]	4.8	4.2e	3.9	4.8	4.9
Corporate profits	(1.7)	(0.2)e	1.1	2.4	2.5
Consumer Price Index	2.2	1.8	1.3	1.9	1.9
Labour Market					
Employment	1.3	1.5	1.1	1.4	1.6
Job creation (000s)	81	95	71	90	109
Unemployment rate (per cent)	6.6	6.3	6.3	6.2	6.1

[1] Includes supplementary labour income.
e = estimate.
Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Comparison to the 2006 Ontario Budget

In 2006, Ontario's economy grew more slowly than anticipated at the time of the 2006 Budget, largely due to higher crude oil prices, a stronger Canadian dollar and weaker U.S. demand for autos and parts and forestry sector products. Real GDP rose by an estimated 1.3 per cent in 2006, with exports, wages and salaries, and corporate profits lower than projected at the time of the 2006 Budget. However, there were a number of positive developments. Machinery and equipment investment grew by an estimated 8.3 per cent — 0.4 percentage points above the 2006 Budget projection. Non-residential construction investment rose by an estimated 7.4 per cent — 1.5 percentage points higher than the 2006 Budget forecast. The labour market was also strong, with the economy creating 95,000 jobs in 2006 — 10,000 more than forecast at the time of the Budget. Consumer spending increased by a healthy 4.0 per cent in 2006 — 1.2 percentage points higher than the Budget projection. Residential investment grew by an estimated 0.3 per cent in 2006, a better outcome than expected, as home resales were stronger than forecast.

Current forecasts suggest weaker economic growth in the province in 2007 than projected at the time of 2006 Budget, reflecting ongoing restructuring in the auto sector, weaker U.S. growth and higher oil prices. Real GDP growth in 2007 is now projected to be 0.9 percentage points lower than expected at the time of the 2006 Budget. Nominal GDP growth is forecast to be 1.2 percentage points lower in 2007, and growth in the key revenue drivers, such as wages and salaries, corporate profits and retail sales, are all projected to be lower than expected in the 2006 Budget. The following table highlights the changes in forecast assumptions in the 2007 Budget compared with the 2006 Budget projections.

CHANGES IN KEY ECONOMIC FORECAST ASSUMPTIONS, 2006 BUDGET COMPARED TO 2007 BUDGET (PER CENT CHANGE) **TABLE 11**

	2006		2007		2008	
	2006 Budget	Actual	2006 Budget	2007 Budget	2006 Budget	2007 Budget
Real Gross Domestic Product	2.3	1.3e	2.5	1.6	2.9	2.8
Nominal Gross Domestic Product	4.5	2.9e	4.3	3.1	4.7	4.7
Retail Sales	4.2	4.1	4.5	3.6	4.7	4.6
Housing Starts (000s)	73.5	73.4	74.5	68.0	75.5	67.0
Personal Income	4.7	4.6e	4.8	3.9	5.0	4.7
Wages and Salaries[1]	4.7	4.2e	4.7	3.9	4.9	4.8
Corporate Profits	3.8	(0.2)e	4.3	1.1	4.5	2.4
Employment	1.3	1.5	1.5	1.1	1.7	1.4
Job Creation (000s)	85	95	97	71	112	90
Key External Variables						
Crude Oil ($ US per Barrel)	61.0	66.1	57.0	61.0	52.0	61.0
U.S. Real Gross Domestic Product	3.4	3.3	3.0	2.7	3.1	3.0
Canadian Dollar (Cents US)	87.0	88.2	87.0	86.0	87.0	87.5
3-month Treasury Bill Rate	4.0	4.0	4.3	4.1	4.5	4.3
10-year Government Bond Rate	4.5	4.2	4.8	4.2	5.2	4.7

[1] Includes supplementary labour income.
e = estimate.
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

SECTION D: ONTARIO'S REVENUE OUTLOOK

MEDIUM-TERM REVENUE OUTLOOK

Ontario's revenue outlook is based on the economic outlook presented in Section C: *Ontario's Economic Outlook*, which calls for strengthening economic growth over the 2007 to 2009 period.

Total revenue is forecast at $91.5 billion in 2007–08, an increase of $2.4 billion or 2.6 per cent over the previous year. By 2009–10, total revenue is projected to reach $97.8 billion, an increase of $6.3 billion over the 2007–08 forecast, representing annual average growth of 3.4 per cent.

MEDIUM-TERM REVENUE OUTLOOK
($ BILLIONS) **TABLE 12**

	Interim	Plan	Outlook	
Revenue	**2006–07**	**2007–08**	**2008–09**	**2009–10**
Taxation Revenue				
Personal Income Tax	23.3	23.3	24.7	26.4
Retail Sales Tax	16.2	16.7	17.5	18.4
Corporations Tax	10.5	10.6	10.7	10.6
Ontario Health Premium	2.6	2.6	2.8	2.9
All Other Taxes	10.9	11.1	11.5	12.0
Total Taxation Revenue	63.5	64.3	67.2	70.1
Government of Canada	14.2	16.1	15.8	15.9
Income from Government Enterprises	4.0	4.0	4.5	4.5
Other Non-Tax Revenue	7.5	7.1	7.3	7.3
Total Revenue	89.1	91.5	94.7	97.8

Note: Numbers may not add due to rounding.

The **Personal Income Tax (PIT)** revenue forecast is consistent with the economic outlook for rising employment and incomes. One-time revenues of $1.1 billion related to underestimating revenues in prior years' Public Accounts included in 2006–07 mask growth in the tax base in 2007–08. The medium-term revenue forecast incorporates the projected impact of a number of tax measures announced previously and in this Budget by the Ontario Government. It also includes the estimated impact of paralleling measures announced by the federal government related to pension income splitting. The PIT revenue base tends to grow at a faster rate than incomes due to the progressive nature of the tax system.

PERSONAL INCOME TAX REVENUE
($ BILLIONS)

TABLE 13

	Interim 2006–07	Plan 2007–08	Outlook 2008–09	2009–10
Actual Revenue	23.3	23.3	24.7	26.4
Measures Included Above	–	(0.1)	(0.2)	(0.2)
Adjustments for Prior Year Revenues	1.1	–	–	–
Base Revenue	22.3	23.5	25.0	26.7
Base Revenue Growth (Per Cent)	–	5.4	6.3	6.7
Wages and Salaries Growth (Per Cent)	–	4.2	4.8	4.9

Notes: Numbers may not add due to rounding.

"Measures included above" is the incremental revenue impact of all tax measures, announced previously and in this Budget, relative to their impact on revenues in 2006–07.

Source: Ontario Ministry of Finance.

Retail Sales Tax (RST) revenue growth is based on the forecast for increased household and business spending. RST revenue growth is dampened in 2007–08 by the outlook for residential investment spending and consumer durable goods expenditures. Revenue growth is expected to pick up in 2008–09 and 2009–10, consistent with the outlook for strengthening economic growth.

Corporations Tax (CT) revenue growth is based on the medium-term forecast for pre-tax corporate profits. CT revenue growth is affected by a number of tax measures announced in this and previous Ontario Budgets, most significantly the phasing out of the capital tax and the anticipated impact of the federal–provincial agreement to streamline the administration of Ontario's corporate tax system. For more information on Ontario's tax policy changes, see Chapter III, *Ontario's Tax System Supports Expanded Prosperity*. The 2006–07 CT revenue projection includes a negative one-time adjustment of $114 million due to overestimation of 2005–06 revenues in the Public Accounts. The CT revenue base tends to grow more slowly than profits due to the flexibility corporations have in claiming certain income tax deductions and generally slow growth in the capital tax base.

CORPORATIONS TAX REVENUE
($ BILLIONS)

TABLE 14

	Interim 2006–07	Plan 2007–08	Outlook 2008–09	2009–10
Actual Revenue	10.5	10.6	10.7	10.6
Measures Included Above	–	(0.1)	(0.2)	(0.6)
Adjustments for Prior Year Revenues	(0.1)	–	–	–
Base Revenue	10.6	10.7	10.9	11.2
Base Revenue Growth (Per Cent)	–	1.3	2.0	2.2
Profit Growth (Per Cent)	–	1.1	2.4	2.5

Notes: Numbers may not add due to rounding.

"Measures included above" is the incremental revenue impact of all tax measures, announced previously and in this Budget, relative to their impact on revenues in 2006–07.

Source: Ontario Ministry of Finance.

The **Ontario Health Premium** forecast is consistent with the outlook for rising employment and incomes.

The forecast for growth in **all other taxes** is based on the outlook for economic growth outlined in Section C: *Ontario's Economic Outlook*. The forecast is developed on an item-by-item basis. For example, the forecast for Employer Health Tax revenues is based on the outlook for wages and salaries growth.

Total taxation revenue is forecast to increase by $0.8 billion, or 1.3 per cent, in 2007-08. Between 2007-08 and 2009-10, taxation revenues are projected to increase by $5.8 billion, with annual growth averaging 4.4 per cent. This is roughly consistent with nominal GDP annual growth averaging 4.7 per cent between 2007 and 2009.

Transfers from the Government of Canada are based on existing federal-provincial funding arrangements and the Province's understanding of new funding commitments made by the federal government, including proceeds from the C-48 trusts and the clean air and climate change trust, other Canada-Ontario Agreement equivalent amounts, and increases to the Canada Social Transfer due to the movement to equal per-capita provincial cash entitlements.

Income from Government Enterprises is based on information provided by Ontario's government enterprises. The forecast is projected to remain flat at $4.0 billion from 2006-07 to 2007-08, with higher Liquor Control Board of Ontario and Hydro One Inc. (HOI) net income offset by slight declines in net income from the Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG). The small decrease in OLG net income in 2007-08 is largely due to continued border issues, the value of the Canadian dollar, construction disruptions at Casino Windsor and the full-year impact of province-wide non-smoking legislation. The decline in OPG net income in 2007-08 is primarily due to lower projected electricity prices and increased pension and other post-employment costs, mainly due to changes in external factors that affect, for example, discount rates used to determine these costs. Net income from government enterprises is projected to increase to $4.5 billion in 2008-09 and 2009-10, with improved earnings among all the major government enterprises.

The forecast for **Other Non-Tax revenues** is based on information provided by government ministries and provincial agencies. These revenues are forecast to decrease by $0.4 billion, or 5.3 per cent, in 2007-08, largely due to the inclusion in 2006-07 of $573 million from the previously announced Teranet IPO on June 16, 2006. Other Non-Tax revenues increase by $0.2 billion, or on average 1.1 per cent a year, between 2007-08 and 2009-10 as a result of projected increases in a number of revenue sources, including reimbursements to the Province for services provided, power sales, and other fees and licences. Other Non-Tax Revenues tend to be primarily influenced by demographic factors, revenue policies and cyclical factors that affect some revenues such as royalties from Crown timber.

Canada–Ontario Agreement Commitments Addressed

In the 2006 Ontario Budget, the Province included revenue of $2.2 billion in its medium-term fiscal plan between 2006–07 and 2008–09 from the Canada–Ontario Agreement (COA). In the Province's current fiscal planning horizon, this amount would have been adjusted to $3.1 billion to include 2009–10.

While the federal government has made adjustments to the timing, nature, and purposes of its commitment to the COA, it is Ontario's understanding that the federal government has committed to provide the Province with sufficient funding to meet its obligations (see Table 15). These one-time and ongoing revenues will primarily be used to fund existing projects and programs.

Canada–Ontario Agreement Equivalent Revenue, 2006–07 to 2009–10 ($ Millions) — Table 15

	2006–07	2007–08	2008–09	2009–10	Total
Immigration	2	2	2	2	8
Corporate Tax Collection	–	400	–	–	400
C-48 Trusts	428	430	196	–	1,054
Federal Trust for Clean Air and Climate Change	–	195	195	196	586
Other Federal Funding Commitments	–	577	510	504	1,591
Total COA Equivalent Revenue Included in the Fiscal Plan	**430**	**1,604**	**903**	**702**	**3,639**

Medium-Term Revenue Changes Since 2006 Ontario Budget

Sources of Medium-Term Revenue Changes Since 2006 Budget ($ Billions) — Table 16

Key Revenue Changes Since 2006 Ontario Budget	Interim 2006–07	Plan 2007–08	Outlook 2008–09
Slower Economic Growth	(0.7)	(1.5)	(1.7)
2006–07 Revenue Experience	1.1	1.1	1.1
Prior-Year Tax Return Processing	2.0	0.8	0.8
Tax Policy Changes	(0.1)	(0.2)	(0.3)
Federal Transfers	0.6	1.2	0.5
Electricity-Related Revenues	(0.4)	(0.3)	0.1
Other	0.9	0.2	0.2
Total Revenue Changes	3.4	1.2	0.7

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The medium-term forecast for total revenues has increased in each year since the 2006 Budget. The major changes are outlined below.

Changes in the **economic growth** outlook compared to the 2006 Budget result in lower projected taxation revenues over the medium term. For further details, see Section C: *Ontario's Economic Outlook*.

Stronger-than-projected tax revenue performance during 2006–07, particularly from Corporations Tax, boosts the base upon which forecast growth is applied. For further details, see Section B: *Interim Fiscal Performance*.

Higher revenues from processing of 2005 and prior-year Personal Income Tax returns during 2006 and higher-than-projected Corporations Tax revenues related to 2005–06 result in substantial one-time revenues in 2006–07 and also boost the base upon which forecast growth is applied, increasing taxation revenues throughout the forecast period.

Tax policy changes since the 2006 Budget lower the taxation revenue outlook by $0.1 billion in 2006–07 and by $0.3 billion by 2008–09. These include Ontario's paralleling of tax policy measures announced in the 2006 federal budget; the enhanced Ontario dividend tax credit announced in August 2006; the estimated impact of the federal–provincial agreement to streamline the administration of Ontario's corporate tax system; and the estimated impact of federal measures announced on October 31, 2006 with respect to pension income splitting. For more information on proposed Ontario taxation changes, see Chapter III, *Ontario's Tax System Supports Expanded Prosperity*.

Government of Canada Transfers are higher each year over the medium term than projected in the 2006 Budget. The outlook reflects existing federal–provincial funding arrangements and the Province's understanding of new funding commitments made by the federal government.

The decrease in **electricity sector-related revenues** in 2006–07 relative to the 2006 Budget is largely due to lower-than-projected electricity demand and prices. The 2007–08 decrease is primarily due to lower projected power sales by the Ontario Electricity Financial Corporation (OEFC) from contracts with non-utility generators (NUGs). The impact of lower power sales is fiscally neutral, being fully offset by lower OEFC power purchases from NUGs, and is due to improved methods for projecting power sales and purchases by OEFC. In 2008–09, lower power sales than projected in the 2006 Budget is also fully offset by lower power purchases from NUGs, and more than offset by the higher combined net income of OPG and HOI and projected higher payments-in-lieu of taxes from the electricity sector.

Other revenue changes since the 2006 Budget outlook include higher revenues over the medium term from other non-tax revenue sources, including reimbursements to the Province for services provided, other fees, licences and permits, and miscellaneous revenues. Other revenues in 2006–07 are boosted by $573 million in one-time revenue from the previously announced Teranet IPO of June 16, 2006.

Potential Risks to Provincial Revenues

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues make up the largest category of Provincial revenue. Of the $91.5 billion in total revenues forecast for 2007–08, $64.3 billion, or about 70 per cent, is expected to come from taxation revenues. Three taxes within this category — Personal Income Tax, Retail Sales Tax and Corporations Tax — account for about 55 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of managing public finances.

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions. It should be cautioned that these estimates, while useful, are only guidelines and can vary depending on the composition and interaction of the potential risks. These selected risks are those that could potentially have the most material impact on the largest revenue sources. There is a broader range of potential additional risks that are not included because either they are not as material or are difficult to quantify. For example, Income from Government Enterprises, representing roughly five per cent of total revenues, could be affected by a wide range of complex and potentially inter-related economic, market, cost, regulatory and policy developments affecting the enterprises. Likewise, federal transfer payments are subject to future negotiations and legislation, with risks that are difficult to quantify.

Selected Economic and Revenue Risks and Sensitivities — **Table 17**

Item/Key Components	2007–08 Assumption	2007–08 Sensitivities
Total Revenues		
– Real GDP	1.6 per cent growth in 2007	$670 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– GDP Deflator	1.5 per cent increase in 2007	
– Canadian Interest Rates	4.1 per cent three-month treasury bill rate in 2007	Between $70 million and $345 million revenue change in the opposite direction for each percentage point change in interest rates.
– U.S. Real GDP	2.7 per cent growth in 2007	Between $205 million and $480 million revenue change for each percentage point change in U.S. real GDP growth.
– Canadian Dollar Exchange Rate	86.0 cents US in 2007	Between $25 million and $125 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.
Total Taxation Revenues		
– Revenue Base[1]	3.1 per cent growth in 2007–08	$565 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– Nominal GDP	3.1 per cent growth in 2007	
Personal Income Tax Revenues		
– Revenue Base	5.4 per cent growth in 2007–08	
Key Economic Assumptions		
– Wages and Salaries	3.9 per cent growth in 2007	$285 million revenue change for each percentage point change in wages and salaries growth.
– Employment	1.1 per cent growth in 2007	
– Unincorporated Business Income	3.8 per cent growth in 2007	

Selected Economic and Revenue Risks and Sensitivities — Table 17

Item/Key Components	2007–08 Assumption	2007–08 Sensitivities
Key Revenue Assumptions		
– Net Capital Gains Income	6.2 per cent increase in 2007	$10 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	3.9 per cent growth in 2007	$16 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
– 2006 Tax-Year Assessments[2]	$20.6 billion	$206 million revenue change for each percentage point change in 2006 Personal Income Tax assessments.[3]
– 2005 Tax-Year and Prior Assessments[2]	$1.1 billion	$11 million revenue change for each percentage point change in 2005 and prior Personal Income Tax assessments.[3]
Retail Sales Tax Revenues		
– Revenue Base	2.7 per cent growth in 2007–08	
Includes:		
– Taxable Household Spending	2.3 per cent growth in 2007–08	
– Other Taxable Spending	3.1 per cent growth in 2007–08	
Key Economic Assumptions		
– Retail Sales	3.6 per cent growth in 2007	
– Nominal Consumption Expenditure	3.5 per cent growth in 2007	$110 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
– Revenue Base	1.3 per cent growth in 2007–08	
– Corporate Profits	1.1 per cent growth in 2007	$60 million revenue change for each percentage point change in pre-tax corporate profit growth.
– 2006–07 Tax Assessment Refunds[4]	$1.5 billion payable in 2007–08	$15 million revenue change in the opposite direction for each percentage point change in 2005–06 refunds.[3]
– 2006–07 Tax Payments upon Filing	$0.8 billion receivable in 2007–08	$8 million revenue change for each percentage point change in 2006–07 payments upon filing.[3]
– 2006–07 Tax Assessment Payments	$0.7 billion receivable in 2006–07 and 2007–08	$7 million revenue change for each percentage point change in 2006–07 assessment payments.[3]
Employer Health Tax Revenues		
– Revenue Base	3.6 per cent growth in 2007–08	
– Wages and Salaries	3.9 per cent growth in 2007	$40 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
– Revenue Base	3.6 per cent growth in 2007–08	
– Personal Income	3.9 per cent growth in 2007	$24 million revenue change for each percentage point change in personal income growth.
– 2006 Tax-Year Assessments	$2.4 billion in 2006	$24 million revenue change for each percentage point change in 2006 Ontario Health Premium Assessments.
Gasoline Tax Revenues		
– Revenue Base	2.2 per cent growth in 2007–08	
– Gasoline Pump Prices	87.8 cents per litre in 2007	$6 million revenue decrease for each cent per litre increase in gasoline pump prices.

Selected Economic and Revenue Risks and Sensitivities

Table 17

Item/Key Components	2007–08 Assumption	2007–08 Sensitivities
Fuel Tax Revenues		
– Revenue Base	0.5 per cent growth in 2007–08	
– Real GDP	1.6 per cent growth in 2007	$6 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
– Revenue Base	1.8 per cent decline in 2007–08	
– Housing Resales	2.7 per cent decline in 2007	$14 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	3.0 per cent growth in 2007	
Health and Social Transfers		
– Canada-wide Revenue Base	$30.1 billion in 2007–08	
– Ontario Revenue Share	37.8 per cent in 2007–08	
– Ontario Population Share	38.9 per cent in 2007–08	$45 million revenue change for each tenth of a percentage point change in population share.
– Ontario Basic Federal PIT Share	43.4 per cent in 2007–08	$12 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.
Other Federal Transfers		
– Ontario's understanding of increases to federal transfers resulting from the 2007 federal Budget	New funding commitments made by the federal government include proceeds from the federal trust for clean air and climate change, Canada-Ontario Agreement equivalent amounts, and increases to the Canada Social Transfer.	The status of this increase in transfers will be uncertain should the federal government not secure the necessary legislative approvals.

[1] Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

[2] Ontario 2006 Personal Income Tax (PIT) is a forecast estimate because most 2006 tax returns are yet to be assessed by the Canada Revenue Agency. Some tax amounts for 2005 and prior years are also yet to be assessed during 2007, and estimates of these amounts are also included in the revenue outlook.

[3] Any change in 2006 or prior-year PIT assessments or 2006–07 Corporations Tax revenues will have an effect on 2007–08 revenues through a change in the revenue base upon which this year's growth is applied.

[4] Corporations Tax revenues for 2006–07 are still subject to uncertainty because a high proportion of corporations have until June 30, 2007 to file their 2006 tax returns and much of the activity that arises from that (refunds, assessment payments) will occur during the latter half of 2007.

SECTION E: ONTARIO'S FISCAL OUTLOOK

MEDIUM-TERM FISCAL OUTLOOK

The government is committed to continuing the prudent and disciplined approach to fiscal planning that is projected to achieve a second consecutive surplus of $0.3 billion in 2006–07. The Province's medium-term fiscal outlook, which includes reserves of $0.8 billion in 2007–08, $1.0 billion in 2008–09 and $1.3 billion in 2009–10, projects a small deficit of $0.4 billion in 2007–08, and surpluses of $0.3 billion in 2008–09 and $0.4 billion in 2009–10. The Province is on track to post a surplus of $0.4 billion in 2007–08 if the reserve is not required. This considerable improvement in the Province's fiscal position means that, if the reserve is not required in 2007–08, the Province is on track to post five consecutive surpluses between 2005–06 and 2009–10.

The following table provides details of the Province's fiscal outlook for the fiscal years 2006–07 to 2009–10. Further details are included in Section G: *Details of Ontario's Finances*.

MEDIUM-TERM FISCAL PLAN AND OUTLOOK **TABLE 18**
($ BILLIONS)

	Interim	Plan	Outlook	
	2006–07	2007–08	2008–09	2009–10
Total Revenue	**89.1**	**91.5**	**94.7**	**97.8**
Expense				
Programs				
Health Sector	36.1	37.9	39.8	41.5
Education Sector[1]	11.7	12.4	12.8	12.9
Postsecondary Education and Training Sector	5.4	5.9	6.0	6.1
Children's and Social Services Sector	10.5	10.9	11.2	11.3
Justice Sector	3.3	3.3	3.4	3.4
Other Programs	12.9	11.6	11.2	11.6
Total Programs	**80.0**	**82.0**	**84.2**	**86.8**
Interest on Debt	8.8	9.1	9.2	9.4
Total Expense	**88.8**	**91.2**	**93.4**	**96.2**
Surplus/(Deficit) Before Reserve	**0.3**	**0.4**	**1.3**	**1.6**
Reserve	–	0.8	1.0	1.3
Surplus/(Deficit)	**0.3**	**(0.4)**	**0.3**	**0.4**

[1] Education sector excludes Teachers' Pension Plan (TPP). Including TPP, total education sector expense is projected at $12.1 billion in 2006–07, $12.8 billion in 2007–08, $12.8 billion in 2008–09 and $12.6 billion in 2009–10.

Note: Numbers may not add due to rounding.

Key Elements of Ontario's Medium-Term Fiscal Plan

The *Fiscal Transparency and Accountability Act, 2004* sets out a number of criteria that the Province's fiscal plan must meet. These criteria ensure the highest level of transparency and accountability in fiscal planning and reporting.

The act requires the Ontario Government to plan for balanced budgets. The key elements of the government's fiscal plan that will ensure the achievement of ongoing balanced budgets include:

- making disciplined decisions that hold the average annual rate of growth in total spending to less than the average annual rate of growth in total revenue
- promoting a strong economy by investing in Ontario's infrastructure, health care, education, and postsecondary education and training
- promoting principled and sustainable federal–provincial fiscal arrangements
- maintaining a prudent debt-to-GDP ratio
- maintaining a cautious and prudent fiscal plan, including an annual reserve.

Medium-Term Expense Outlook

The medium-term expense outlook reflects the new investments announced in this Budget, as well as those made in the last three budgets, mainly in priority areas such as health, education, postsecondary education and training, infrastructure, and programs for the vulnerable.

The medium-term expense outlook continues to maintain the government's commitment to align growth in expense with revenue growth. Over the medium term, total expense will rise from $91.2 billion in 2007–08 to $96.2 billion in 2009–10 — an increase of $5.0 billion. Annual growth in total expense is expected to average 2.7 per cent over the medium term, which is less than the 3.4 per cent average annual growth in revenue forecast over this period.

Details of Expense Outlook

- Total **health sector** spending will grow by $1.8 billion, or 5.0 per cent, to $37.9 billion in 2007–08. Between 2006–07 and 2009–10, health sector spending will increase by a total of $5.4 billion, with growth in hospital net expense accounting for $2.4 billion of the total.
- Total **education sector** spending, including the net expense of the Province's school boards, will grow by $0.7 billion, or 5.9 per cent, to $12.4 billion in 2007–08, rising to $12.9 billion in 2009–10, primarily due to increased provincial grants to school boards for continued improvements in student achievement.

- Total **postsecondary education and training sector** spending, including the net expense of the Province's 24 colleges of applied arts and technology, will grow by $0.4 billion or 7.9 per cent to $5.9 billion in 2007–08, increasing to $6.1 billion in 2009–10. The growth in 2007–08 is primarily due to the transfer of federal programs to the Province under the Labour Market Development Agreement and additional funding for colleges.

- **Children's and Social Services** sector funding will grow by $0.4 billion in 2007–08 and by $0.3 billion in 2008–09. This increased support to Ontario's most vulnerable citizens includes the additional cost of the new Ontario Child Benefit, enhanced funding for the Best Start program, increased funding for children with autism and their families as well as for adults with developmental disabilities and their families, a further two per cent increase in social assistance benefits, and additional funding for facility renewal.

- **Justice sector** spending will grow by 1.2 per cent to $3.3 billion in 2007–08, by 1.3 per cent to $3.4 billion in 2008–09 and by a further 2.0 per cent to $3.4 billion in 2009–10. This level of spending represents a $0.1 billion increase in 2008–09 compared to what was provided in the 2006 Budget.

- **Other Programs** spending will fall by $1.3 billion in 2007–08 to $11.6 billion and stay roughly at that level through 2009–10, reflecting the impact of the one-time investments in 2006–07 such as those related to the net proceeds of the Teranet IPO and the 2006 federal trusts.

- **Interest on debt** expense is forecast to grow by $0.3 billion between 2007–08 and 2009–10, reflecting the government's fiscal targets and interest rates that are forecast to increase from historically low levels. In 2007–08, interest on debt costs will amount to about 10 per cent of total Provincial revenue and will remain there over the medium term. This represents an improvement over 2003–04, when interest on debt expense represented 14 per cent of total Provincial revenue.

Risks to Expense Outlook

Making disciplined decisions aimed at controlling the rate of growth in the Province's medium-term expense plan is a key element of the Province's fiscal plan. However, a number of expense risks and cost drivers could affect the Province's ability to achieve its fiscal targets over the medium term.

Key cost drivers within the Province's expense outlook are demand-driven programs and services that arise from changes in the economic outlook or utilization rates. These pressures are especially evident in the health and social services sectors. For example, a one per cent increase in both Ontario Works and Ontario Disability Support Program caseloads would cost the Province an additional $42 million a year.

Given the size of the health sector, demand for health services can present a significant risk to the fiscal plan. Between 2003–04 and 2006–07, Ontario's total health spending increased at an average annual rate of 7.1 per cent. By contrast, Ontario's nominal GDP growth averaged 3.9 per cent annually, and total

revenue growth averaged 9.2 per cent annually during this period. In 2007–08, the government is planning to invest an additional $1.8 billion in Ontario's health sector for a total of $37.9 billion, representing an annual increase of 5.0 per cent over 2006–07, much higher than the 2.6 per cent growth projected for total Provincial revenue. With this increase, total health spending will amount to 46 per cent of total Provincial program expense in 2007–08.

Perpetual growth in health spending at a rate that exceeds growth in revenue may, over time, reduce funding available for other programs, services and investments, ultimately threatening the long-term economic growth potential of the province. This Budget provides additional targeted investments in the health sector, to support a strategy to lower the rate of growth in health spending over the medium term. In particular, the government is making investments to put the hospital sector on a sustainable financial footing, empowering Local Health Integration Networks, expanding the use of e-health technology and ensuring value for money in the drug system.

To protect the fiscal plan against these types of risks, prudence is built into the plan. The degree of fiscal prudence, currently contained in the medium-term plan, is discussed later in this section.

Potential Risks and Cost Drivers

As required by the *Fiscal Transparency and Accountability Act, 2004*, the following highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions and program demands. It should be cautioned that these sensitivities and risks are only guidelines and can vary, depending on the nature and composition of potential risks.

Expense Risks and Sensitivities

Many programs delivered by the Province are subject to potential risks and cost drivers, such as utilization growth or enrollment and caseload changes. The following sensitivities are guidelines only, and are based on averages for program areas that could change depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities — **Table 19**

Program/Sector	2007–08 Assumption	2007–08 Sensitivities
Health Sector	Annual growth of 5.0 per cent.	One per cent change in health spending: $379 million.
Hospitals Net Expense	Annual growth of 5.0 per cent.	One per cent change in hospital net expense: $175 million.
Drug Programs	Annual growth of 9.0 per cent.	One per cent change in utilization of all drug programs: $39 million (seniors and social assistance recipients).
Long-Term Care Homes	75,500 long-term care home beds. Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $38,000.	One per cent change in number of beds: approximately $28 million.
Home Care	Over 17 million hours of homemaking and support services; 9 million nursing and professional visits.	One per cent change in hours of homemaking and support services: $4 million. One per cent change in nursing and professional visits: $6 million.
Elementary and Secondary Schools[1]	Almost 2 million average daily pupil enrolment.	One per cent enrolment increase: $160 million school boards' net expense.
University Students[1]	322,000 full-time undergraduate and graduate students.	One per cent enrolment change: $28 million of net expense.
Ontario Works[1]	199,000 average annual caseload.	One per cent caseload change: $17 million.
Ontario Disability Support Program[1]	212,000 average annual caseload.	One per cent caseload change: $25 million.
College Students	151,000 full-time students.	One per cent enrolment change: $7 million.
Interest on Debt	Average cost of 2007–08 borrowing is forecast to be approximately 4.9 per cent.	The 2007–08 impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million.
Correctional System	3.0 million adult inmate days per year. Average cost $160 per inmate per day.	One per cent change in inmate days: $5 million.

[1] Based on 2006–07.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on the finances of both the broader public sector partners and the Province.

Selected Compensation Costs — **Table 20**

Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians	$82 million	Almost 22,000 physicians in Ontario, comprising 10,900 family doctors and 11,000 specialists.
Hospital Nurses[1]	$45 million	Over 54,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff[2]	$140 million	Over 195,000 staff including teachers, principals, administrators, and support and maintenance staff.
College Staff[3]	$12 million	About 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service[4]	$52 million	Over 64,000 public servants.

[1] Based on 2006–07.

[2] One per cent increase in salary benchmarks in Grants for Student Needs based on 2006–07 school year.

[3] Based on 2005–06.

[4] Based on 2005–06, reflects total compensation costs.

Reserve

In addition to applying a disciplined approach to fiscal planning while making strategic investments in key priority areas, the government's medium-term fiscal plan includes prudence in recognition of the risks that could materialize due to unanticipated changes in Ontario's economic outlook or in Provincial revenue and expense.

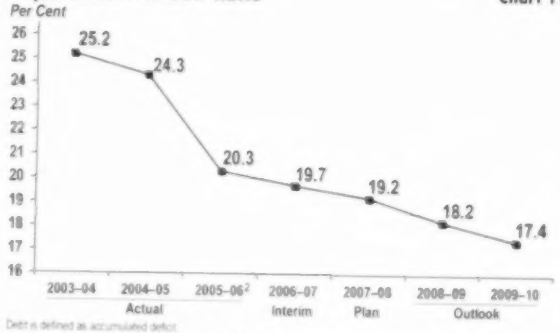
The government's medium-term fiscal plan includes reserves of $0.8 billion in 2007–08, $1.0 billion in 2008–09 and $1.3 billion in 2009–10. The purpose of the reserve is to protect the government's overall fiscal objectives and ensure the achievement of the fiscal targets outlined in this Budget. The 2008–09 and 2009–10 reserves are higher than the $0.8 billion reserve included in 2007–08 to better reflect the risks and uncertain nature of medium-term revenue and expense projections.

Maintaining a Prudent Debt-to-GDP Ratio

A key component of the government's medium-term fiscal plan is the commitment to maintain a prudent level of Provincial debt relative to the size of Ontario's economy as measured by nominal GDP. Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges crowd out funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term to ensure that future generations are not faced with the erosion of key programs and services because of high deficits today.

Consistent with the *Fiscal Transparency and Accountability Act, 2004*, Provincial debt is defined as accumulated deficit, which is the sum of all past Provincial surpluses and deficits. The expansion of the Province's financial reporting to include hospitals, school boards and colleges also means that, beginning in 2005–06, the surpluses or deficits of these organizations are now reflected in the Province's debt-to-GDP ratio.

Projected Debt-to-GDP Ratio[1] Chart 19



[1] Debt is defined as accumulated deficit.
[2] The substantial decline in 2005–06 was primarily due to a one-time reduction of $16.3 billion to the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, reflecting the balance of the sectors' assets less their liabilities as at April 1, 2005.
Source: Ontario Ministry of Finance.

In line with the improvements in the medium-term fiscal outlook, the Province's debt-to-GDP ratio is projected to improve from 25.2 per cent in 2003–04 to 17.4 per cent by 2009–10.

Key Changes Since the 2006 Ontario Budget

Table 21 provides an overview of key changes to the Province's medium-term fiscal outlook since the release of the 2006 Budget.

Impact of Key Changes on Medium-Term Fiscal Targets **Table 21**
($ Billions)

	Interim 2006–07	Plan 2007–08	Outlook 2008–09
Surplus/(Deficit) as per 2006 Budget	(2.4)	(1.5)	0.0
Total Revenue Changes Since 2006 Budget	3.4	1.2	0.7
Key Expense Changes Since 2006 Budget:			
Transit and Roads	0.8	–	–
Additional Health Sector Investments	0.6	0.5	0.8
Increased Spending on Children's and Social Services	0.2	0.5	0.6
Increased Education Funding	0.1	0.3	0.4
Support for Municipalities and Housing	0.2	0.1	0.1
Funding to Municipalities (OMPF)	0.0	0.1	0.1
Enhanced Support for Agriculture, Rural and Resources Sector	0.3	0.1	0.1
Justice Sector Funding	0.1	0.2	0.1
Interest on Debt Savings	(0.6)	(0.5)	(0.7)
Other Expense Changes	0.1	(0.3)	(0.6)
Total Expense Changes[1]	1.8	0.9	0.9
Change in Reserve	(1.0)	(0.8)	(0.5)
Total Changes Since 2006 Budget	2.7	1.1	0.3
2007 Budget Surplus/(Deficit)	0.3	(0.4)	0.3
Reserve	–	0.8	1.0
2007 Budget Surplus/(Deficit) Before Reserve	0.3	0.4	1.3

[1] Excludes the impact of adjustments made in the 2007 Budget to reflect transfers from various ministries to school boards, hospitals and colleges.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

While the 2006 Budget outlined a medium-term fiscal plan to balance the budget by 2008–09, or one year earlier if the reserve was not required in 2007–08, this Budget reports that the government is projecting that the Province is now on track to post five consecutive surpluses between 2005–06 to 2009–10 if the reserve is not required in 2007–08.

The medium-term forecast for total revenues has increased since the 2006 Budget largely due to higher-than-projected federal transfers and a higher-than-projected 2006–07 taxation revenue base upon which forecast growth is applied. Additional details on changes to medium-term revenue forecast are found in Section D: *Ontario's Revenue Outlook*.

The following are key changes to the medium-term expense outlook since the 2006 Budget:

- **Transit and Roads:** In 2006–07, Ontario will invest $277 million for transit infrastructure, distributed to municipalities on the basis of transit ridership; Ontario will also provide $75 million to municipalities, also to be distributed on the basis of transit ridership, for public transit capital; $150 million for the contribution to the City of Toronto to help fund the replacement and refurbishment of Toronto Transit Commission (TTC) vehicles; and an additional $197 million to meet commitments to improve and expand the TTC system.

- **Health Sector**: Total health sector spending will be $0.6 billion higher in 2006–07, $0.5 billion higher in 2007–08 and $0.8 billion higher in 2008–09, compared to what was projected at the time of the 2006 Budget. This additional spending will be invested in key programs, such as the Emergency Department Action Plan, Wait Time Strategy, long-term care homes, the Ontario Health Insurance Plan and support for community care.

- **Children's and Social Services:** Spending in the children's and social services sector will increase by $0.2 billion in 2006–07, $0.5 billion in 2007–08 and $0.6 billion in 2008–09. This increased support to Ontario's most vulnerable citizens includes the additional cost of the new Ontario Child Benefit, enhanced funding for the Best Start program, increased funding for children with autism and their families as well as for adults with developmental disabilities and their families, a further two per cent increase in social assistance benefits, and additional funding for facility renewal.

- **Education sector** spending will be $0.1 billion higher in 2006–07, $0.3 billion higher in 2007–08 and $0.4 billion higher in 2008–09 compared to what was projected at the time of the 2006 Budget, mainly because of additional funding to school boards to support higher student achievement.

- **Support for Municipalities and Housing**: The government will provide $0.2 billion in 2006–07 and $0.1 billion in additional funding in 2007–08 and 2008–09 for new initiatives for affordable and off-reserve aboriginal housing as part of the distribution of federal housing trusts and other supports to municipalities.

- **Ontario Municipal Partnership Fund (OMPF)** payments are $0.1 billion higher in 2007–08 compared to what was projected at the time of the 2006 Budget. This increase relates to increased social program costs, and enhanced OMPF support to municipalities announced in December 2006. This Budget also includes adjustments to ensure OMPF assistance remains responsive to changes in municipal social program costs. As a result, municipalities will receive $843 million through the OMPF in 2007 — this is an $80 million, or 10 per cent, increase over the support announced in March 2006.

- **Support for Agriculture, Rural and Resources Sector** is $0.3 billion higher in 2006–07 compared to the 2006 Budget projection mainly to account for increased assistance to farmers to match the Canadian Agricultural Income Stabilization Inventory Transition initiative announced in the 2006 federal budget, as well as support to rural communities for infrastructure projects.

- **Justice Sector** funding will be $0.1 billion higher in 2006–07, $0.2 billion higher in 2007–08 and $0.1 billion higher in 2008–09, compared to what was projected at the time of the 2006 Budget, primarily for courts, legal aid and correctional facilities.

- **Other expense changes**, which amount to an increase of $0.1 billion in 2006–07, and decreases of $0.3 billion in 2007–08 and $0.6 billion by 2008–09, are mainly due to **lower power purchase** expense compared to what was projected at the time of the 2006 Budget, as well as **lower pension expenses** primarily due to lower-than-projected current period costs.

- **Interest on debt expense** has decreased by $0.6 billion in 2006–07, $0.5 billion in 2007–08 and $0.7 billion in 2008–09, mainly reflecting the impact of lower interest on debt costs than were forecast at the time of the 2006 Budget.

- The $1.0 billion **reserve** was not required in 2006–07. The size of the reserve is lower in each year of the medium term compared to the fiscal plan outlined in the 2006 Budget, reflecting the fact that the Province's finances have returned to a more sustainable basis compared to 2003–04 and based on the fact that the government has not needed to draw extensively on the reserve over the past 10 years.

SECTION F: ACCOUNTABILITY, TRANSPARENCY AND FINANCIAL MANAGEMENT

The government is committed to enhancing transparency, accountability and financial management in the public sector. It has already taken a number of important steps to this end and is further strengthening accountability for the spending of taxpayer dollars.

ENHANCING TRANSPARENCY IN FINANCIAL REPORTING

Shortly after taking office, the government introduced the *Fiscal Transparency and Accountability Act* (FTAA), which became law in December 2004.

Fiscal Transparency and Accountability Act, 2004

Under FTAA, the Province is now required to release:

- a detailed three-year fiscal plan that specifies the assumptions underlying the economic forecasts
- a mid-year report on the fiscal plan that includes a tax expenditure report, showing the estimated costs of expenditures made through the tax system
- a pre-election report, to be reviewed by the Auditor General
- a long-term economic outlook
- quarterly finance updates on, or before, the 15th of August and February for the respective quarters
- Ontario Economic Accounts within 45 days after the National Accounts are published.

Under FTAA, the Province is also required to:

- establish an advisory body, the Ontario Economic Forecast Council, which it did in 2006, to advise the Minister on macroeconomic forecasts and assumptions used in preparing the Budget and other key economic and fiscal reports
- publish details in the mid-year review of how the public can participate in the Minister's pre-budget consultations.

The government also took major steps towards improving the timeliness of the Province's financial reporting by advancing the dates of its Budgets and Annual Reports. The 2006 and 2007 Documents have been tabled in advance of the start of the Province's fiscal year. The earlier budgets give transfer payment partners more timely information to better plan their delivery of services to the public. The government also advanced the date of tabling its 2005–06 Annual Report and Consolidated Financial Statements compared to prior years and plans to maintain this schedule for its 2006–07 Annual Report and Consolidated Financial Statements. By providing more comprehensive and timely financial reporting, the

government is demonstrating its commitment to improved transparency in government financial reporting.

Strengthening Accountability to the Public

Every year, the Minister of Finance has appeared before the all-party Standing Committee on Finance and Economic Affairs, where members of the legislature can ask questions about the Province's fiscal position. The Minister also conducts his own province-wide pre-budget consultations. Between November 2006 and January 2007, the Minister met 928 stakeholders in 14 communities throughout Ontario.

Recognizing that the public wants governments to be held accountable for the effective management of tax dollars, the Province has introduced new initiatives that will strengthen public accountability.

Pre-Election Report

As required by FTAA, the government will issue its first Pre-Election Report in April 2007. The Pre-Election Report will help Ontario's citizens better understand the Province's finances before the upcoming provincial election. The Report will be reviewed by the Auditor General of Ontario, and the results of the review are expected to be reported by June 2007.

Amendments to the *Election Act* and *Election Finances Act*

The *Election Act* was amended so that, starting in 2007, provincial general elections will normally be held on the first Thursday in October every four years. By establishing fixed dates for general elections, the government has enhanced openness and transparency in the elections process. The government will propose amendments to the *Election Act* to reflect the change in the date of the general election to Wednesday, October 10, 2007. This change, as permitted by the *Election Act*, was ordered by the Lieutenant Governor in Council upon the recommendation of the Chief Election Officer. In addition to some technical amendments to the *Election Finances Act* and the *Legislative Assembly Act*, the government will propose amendments to lower the threshold requirements for registration as a political party under the act and ensure the integrity of the party registration and political finance system is maintained.

Interim Appropriations Act

In this new era of fixed election dates, and continuing to build on the transparency and accountability that has been entrenched since 2003, this government intends to introduce legislation that, if enacted, would give the government legal spending authority from the beginning of the fiscal year, through the period of the general election. This system would be consistent with other jurisdictions and would allow the legislature to approve government spending — a more transparent method than used in previous election years.

Amendment to the *French Language Services Act*

The government is committed to delivering quality French language services to Ontario's francophone community. This Budget proposes legislative amendments to the *French Language Services Act* to establish the Office of the Commissioner of French Language Services as an agency of government. The Commissioner will act as a liaison between government and the francophone community in the delivery of French language services as set out in the act.

Improving Accountability of the Broader Public Sector

The government provides broader public-sector (BPS) organizations throughout the province with over $40 billion in transfer payments to deliver services to the public. Given the magnitude of the dollars entrusted to these organizations, the government has taken steps to improve their accountability for spending taxpayer dollars wisely by amending the *Auditor General Act* and expanding the government's financial reporting to include major BPS expenses.

Amendment to the *Auditor General Act*

The *Auditor General Act* was amended in 2004 to expand the Auditor General's authority to perform value-for-money audits of institutions in the BPS as well as Crown-controlled corporations and their subsidiaries. The Auditor General can now review the operations of these BPS organizations to help ensure that taxpayers are getting value for money.

Consolidation of Hospitals, School Boards and Colleges

Starting with the 2006 Budget, and the 2005–06 Public Accounts, the government expanded the scope of the Province's financial reporting to include the financial results of three important public-sector partners: hospitals, school boards, and colleges of applied arts and technology. The inclusion of these broader public sectors in the government's financial reports improves transparency in government financial reporting and enhances the accountability of these sectors for managing their expenditure of taxpayer dollars.

Strengthening Financial Management in the Ontario Public Service

The government is also strengthening financial management in the public service. An increased focus on strong financial management processes will boost the government's ability to deliver value to Ontario's taxpayers.

As part of its initiatives, the government created the Treasury Board Office and restructured the Office of the Provincial Controller. The new Treasury Board Office will provide enterprise-wide leadership in fiscal and financial planning, while collaborating with ministries and agencies to support sound, timely decisions and delivery of the government's priorities. The Office of the Provincial Controller will play a key role in strengthening financial management practices in the public service and ensuring the necessary financial systems, processes and controls are in place and operating efficiently and effectively.

Substantial system enhancements have already been made to support more effective financial management and reporting. The quality of the government's external financial reports has been enhanced by the implementation of a common integrated financial information system (IFIS) throughout the public service. This system is being enhanced to improve financial management reporting and accounting for provincial assets, revenues and BPS expenditures.

The government is also making significant strides to promote efficiency and effectiveness in supply chain management for Ontario's BPS through OntarioBuys. Additional details are provided in Chapter I, Section H: *Expanding Opportunities through a Modern and Efficient Government*.

As well, the government continues to improve its accounting and financial reporting practices. In recent years, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) has introduced a number of fundamental changes in government accounting standards. These changes have resulted in the expanded consolidation of BPS organizations and the amortization of tangible capital assets. The net expenses of these BPS organizations are now included in the Province's financial statements on a bottom-line accountability basis. The government is consulting with PSAB to ensure that this "one-line" basis of reporting can be maintained in the future to support the improved transparency of these sectors for reporting their net expenses.

The PSAB is considering a number of other significant changes to government financial reporting, which include accounting for government transfers, financial instruments and foreign exchange. As with any potential change, it is important to consider their possible impact on the transparency and quality of government financial reporting, as well as on the fiscal planning and policy decision-making processes. The government will continue to work with PSAB and other stakeholder groups to ensure that accounting standards established for governments in Canada serve the best interests of Ontario's taxpayers.

Finally, the Office of the Provincial Controller has worked with other provincial, territorial and federal government controllers to establish the Canadian Council of Comptrollers (CCC). This recently established council allows government controllers to work together on common issues and concerns. It also facilitates the sharing of best practices in government financial management and the exchange of information and experience among all the controllers of senior governments across Canada.

SECTION G: DETAILS OF ONTARIO'S FINANCES

As outlined in this chapter, the Province has succeeded in eliminating the inherited structural deficit and, if the reserve is not required in 2007–08, is projecting five consecutive surpluses between 2005–06 and 2009–10.

This section provides information on Ontario's historical fiscal performance, key fiscal indicators, as well as details on the Province's medium-term fiscal plan and outlook:

- Fiscal Tables and Graphs
- Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities
- Contingent Liabilities.

FISCAL TABLES AND GRAPHS

MEDIUM-TERM FISCAL PLAN AND OUTLOOK **TABLE 22**
($ BILLIONS)

	Interim	Plan	Outlook	
	2006–07	2007–08	2008–09	2009–10
Revenue	**89.1**	**91.5**	**94.7**	**97.8**
Expense				
Programs	80.0	82.0	84.2	86.8
Interest on Debt	8.8	9.1	9.2	9.4
Total Expense	**88.8**	**91.2**	**93.4**	**96.2**
Surplus/(Deficit) Before Reserve	**0.3**	**0.4**	**1.3**	**1.6**
Reserve	–	0.8	1.0	1.3
Surplus/(Deficit)	**0.3**	**(0.4)**	**0.3**	**0.4**
Investment in Capital Assets	**2.6**	**3.3**	**3.5**	**4.0**
Net Debt[1]	143.0	145.3	147.0	149.2
Accumulated Deficit[1]	108.8	109.2	108.9	108.6
Gross Domestic Product (GDP) at Market Prices	553.2	570.3	597.2	625.2
Net Debt as a per cent of GDP	25.9	25.5	24.6	23.9
Accumulated Deficit as a per cent of GDP	19.7	19.2	18.2	17.4

[1] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

2007–08 Fiscal Outlook

Table 23

($ Millions)

	Interim 2006–07	Plan 2007–08	Change $ Millions	Change Per Cent
Revenue	**89,143**	**91,503**	**2,360**	**2.6**
Expense				
Programs	79,992	82,030	2,038	2.5
Interest on Debt	8,841	9,123	282	3.2
Total Expense	**88,833**	**91,153**	**2,320**	**2.6**
Surplus/(Deficit) Before Reserve	**310**	**350**	**40**	**12.9**
Reserve	–	750	750	–
Surplus/(Deficit)	**310**	**(400)**	**(710)**	**–**
Investment in Capital Assets	**2,609**	**3,334**	**725**	**27.8**
Net Debt[1]	143,025	145,314	2,289	1.6
Accumulated Deficit[1]	108,845	109,245	400	0.4

[1] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

REVENUE
(S MILLIONS)

TABLE 24

	2003–04	2004–05	Actual 2005–06	Interim 2006–07	Plan 2007–08
Taxation Revenue					
Personal Income Tax	18,301	19,320	21,041	23,285	23,285
Retail Sales Tax	14,258	14,855	15,554	16,194	16,682
Corporations Tax	6,658	9,883	9,984	10,476	10,605
Employer Health Tax	3,753	3,886	4,197	4,376	4,550
Ontario Health Premium	–	1,737	2,350	2,589	2,638
Gasoline Tax	2,264	2,277	2,281	2,303	2,401
Fuel Tax	681	727	729	735	741
Tobacco Tax	1,350	1,453	1,379	1,268	1,217
Land Transfer Tax	909	1,043	1,159	1,203	1,187
Electricity Payments-In-Lieu of Taxes	627	511	951	706	706
Other Taxes	347	283	292	355	307
	49,148	**55,975**	**59,917**	**63,490**	**64,319**
Government of Canada					
Canada Health and Social Transfer (CHST)	7,345	–	–	–	–
Canada Health Transfer (CHT)	–	5,640	7,148	7,732	8,104
Canada Social Transfer (CST)[1]	–	2,912	3,324	3,499	3,740
CHST Supplements	577	775	584	–	–
Social Housing	528	522	520	530	528
Infrastructure Programs	150	209	285	201	161
Wait Times Reduction Fund	–	242	243	467	468
Medical Equipment Funds	192	387	194	–	–
Other Government of Canada	1,101	1,195	953	1,749	3,105
	9,893	**11,882**	**13,251**	**14,178**	**16,106**
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,106	1,992	2,027	1,827	1,801
Liquor Control Board of Ontario	1,045	1,147	1,197	1,290	1,343
Ontario Power Generation Inc. and Hydro One Inc.	(17)	444	1,107	873	840
Other Government Enterprises	(64)	(5)	(23)	(2)	2
	3,070	**3,578**	**4,308**	**3,988**	**3,986**
Other Non-Tax Revenue					
Reimbursements	1,206	1,241	1,295	1,419	1,491
Electricity Debt Retirement Charge	1,000	997	1,021	1,000	1,013
Vehicle and Driver Registration Fees	985	976	763	1,021	1,032
Power Sales	510	610	779	807	831
Other Fees and Licences	594	506	550	565	583
Liquor Licence Revenue	488	489	516	458	455
Net Reduction of Power Purchase Contract Liability	104	236	396	412	398
Sales and Rentals	532	352	465	991	429
Royalties	248	278	191	222	217
Miscellaneous Other Non-Tax Revenue	622	721	773	592	643
	6,289	**6,406**	**6,749**	**7,487**	**7,092**
Total Revenue	**68,400**	**77,841**	**84,225**	**89,143**	**91,503**

[1] Includes 2005 federal budget additional Early Learning and Child Care revenues of $272 million in 2005–06 and $254 million in 2006–07.

TOTAL EXPENSE
($ MILLIONS)

TABLE 25

Ministry Expense	2003–04	2004–05	Actual[1] 2005–06	Interim[2] 2006–07	Plan 2007–08
Aboriginal Affairs Secretariat	15	21	50	24	28
Agriculture, Food and Rural Affairs	843	799	865	809	876
Attorney General	1,231	1,209	1,287	1,379	1,387
Board of Internal Economy	196	145	150	168	245
Children and Youth Services[3]	2,595	2,786	3,267	3,284	3,574
Citizenship and Immigration[3]	55	64	92	118	86
Community and Social Services[3]	5,976	6,365	6,718	7,238	7,341
Community Safety and Correctional Services[3]	1,701	1,739	1,750	1,895	1,927
Culture	327	344	475	400	350
Democratic Renewal Secretariat	–	2	2	9	8
Economic Development and Trade	78	68	176	268	327
Education	352	368	440	445	437
School Boards Net Expense	9,423	10,274	10,886	11,290	11,989
Energy	169	194	207	247	290
Environment	265	307	274	312	325
Executive Offices	24	19	19	19	18
Finance[3]	696	544	583	612	464
Ontario Municipal Partnership Fund/Community Reinvestment Fund	651	626	714	758	917
Francophone Affairs, Office of	3	3	4	4	4
Government Services	467	898	625	817	818
Health and Long-Term Care[4]	16,233	17,573	17,841	19,033	20,043
Hospitals Net Expense[4]	12,946	13,877	14,816	16,674	17,509
Health Promotion[3]	202	236	290	396	373
Intergovernmental Affairs	6	13	10	12	9
Labour	117	129	141	150	161
Municipal Affairs and Housing	635	772	926	837	760
Natural Resources	627	563	628	762	726
Northern Development and Mines	189	320	337	322	356
Public Infrastructure Renewal[5]	(35)	41	107	403	138
Research and Innovation[3]	161	238	332	318	325
Revenue	533	523	442	551	578
Small Business and Entrepreneurship	11	16	26	25	26
Tourism	212	167	210	191	195
Training, Colleges and Universities[3]	2,811	3,293	3,504	4,095	4,402
Colleges Net Expense	1,090	1,289	1,185	1,331	1,453
Transportation	1,816	1,831	2,188	2,753	1,977
Other Expense					
Capital Contingency Fund	–	–	–	–	175
Community Reinvestment Fund One-Time Transition Funding	–	233	–	–	–
Electricity Consumer Price Protection Fund	253	–	–	–	–
Interest on Debt	9,604	9,368	9,019	8,841	9,123
Move Ontario	–	–	1,232	6	–
One-Time and Extraordinary Assistance to Agricultural Sector	64	601	282	278	20*
Operating Contingency Fund	–	–	–	40	580
Pension and Other Employee Future Benefits	309	458	729	567	533
Power Purchases	797	840	803	807	831
Teachers' Pension Plan	235	240	295	345	349
Year-End Savings	–	–	–	–	(900)
Total Expense	**73,883**	**79,396**	**83,927**	**88,833**	**91,153**

[1] Starting in 2005–06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.

[2] The 2006–07 interim fiscal results reported in this Budget are based on the best information available as of early March 2007.

[3] For 2005–06, 2006–07 and 2007–08, these ministry total expenses have been adjusted to reflect transfers to school boards, hospitals, and colleges, and are consolidated in these sector's net expenses. Prior to 2005–06, ministry historical figures reflect the transfer of the grants to these entities for comparison purposes.

[4] The 2003–04 expenses for Health and Long Term Care and Hospitals include $824 million of SARS-related and major one-time health costs. The 2006–07 figures reflect a change in the presentation of expense in the Health Sector to be consistent with the 2005–06 Public Accounts. This change in presentation does not affect total expense.

[5] Credit expense amounts relate to consolidation adjustments between the Ontario Realty Corporation (ORC) and ministries to reflect net spending for the year.

* 2007–08 Plan expenses of $20 million do not include potential provincial matching funds arising from the March 9, 2007 federal announcement.

2007–08 Infrastructure Expenditures

($ Millions)

Table 26

	Total Infrastructure Expenditures 2006–07 Interim	2007–08 Plan		
		Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure[1]	Total Infrastructure Expenditures
Transportation				
Transit	1,691	598	394	992
Highways	1,442	1,549	154	1,703
Other Transportation	80	5	25	30
Health				
Hospitals	343	623	5	628
Other Health	189	50	176	226
Education				
School Boards	1,110	–	1,016	1,016
Colleges	68	184	–	184
Universities	52	–	71	71
Water/Environment	290	32	226	258
Municipal and Local Infrastructure[2]	556	2	249	251
Justice	111	89	42	131
Other	713	202	253	455
Total[3]	**6,645**	**3,334**	**2,611**	**5,945**

[1] Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's total expenses in Table 25.

[2] Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

[3] Total expenditures include $86 million in flow-throughs in Investment in Capital Assets (for provincial highways) and $160 million in flow-throughs in Transfers and Other Expenditures in Infrastructure ($28 million in Transportation, $45 million in Water/Environment, $87 million in Municipal and Local Infrastructure).

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	1998–99	1999–00	2000–01
Financial Transactions			
Revenue	**56,050**	**65,042**	**66,294**
Expense			
Programs	49,036	53,347	53,519
Interest on Debt	9,016	11,027	10,873
Total Expense	**58,052**	**64,374**	**64,392**
Surplus/(Deficit) Before Reserve	**(2,002)**	**668**	**1,902**
Reserve	–	–	–
Surplus/(Deficit)	**(2,002)**	**668**	**1,902**
Net Debt[3, 4]	**114,737**	**134,398**	**132,496**
Accumulated Deficit[3]	**114,737**	**134,398**	**132,496**
Gross Domestic Product (GDP) at Market Prices	377,897	409,020	440,759
Personal Income	304,652	321,702	347,653
Population — July (000s)	11,367	11,506	11,685
Net Debt per Capita (dollars)	10,094	11,681	11,339
Personal Income per Capita (dollars)	26,801	27,959	29,752
Total Expense as a per cent of GDP	15.4	15.7	14.6
Interest on Debt as a per cent of Revenue	16.1	17.0	16.4
Net Debt as a per cent of GDP	30.4	32.9	30.1
Accumulated Deficit as a per cent of GDP	30.4	32.9	30.1

[1] Starting in 2002–03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated organizations are accounted for on a full accrual basis.

[2] Starting in 2005–06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.

[3] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these BPS entities.

[4] Net debt is restated in 2003–04, 2004–05 and 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

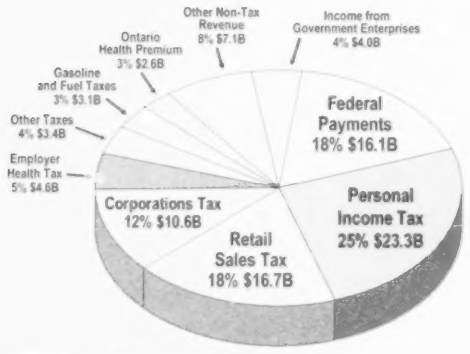
Sources: Ontario Ministry of Finance and Statistics Canada.

TABLE 27

2001–02	2002–03[1]	2003–04	2004–05	Actual[2] 2005–06	Interim 2006–07	Plan 2007–08
66,534	**68,891**	**68,400**	**77,841**	**84,225**	**89,143**	**91,503**
55,822	59,080	64,279	70,028	74,908	79,992	82,030
10,337	9,694	9,604	9,368	9,019	8,841	9,123
66,159	**68,774**	**73,883**	**79,396**	**83,927**	**88,833**	**91,153**
375	**117**	**(5,483)**	**(1,555)**	**298**	**310**	**350**
–	–	–	–	–	–	750
375	**117**	**(5,483)**	**(1,555)**	**298**	**310**	**(400)**
132,121	**132,647**	**138,816**	**140,921**	**141,928**	**143,025**	**145,314**
132,121	**118,705**	**124,188**	**125,743**	**109,155**	**108,845**	**109,245**
453,701	477,763	493,219	517,608	537,657	553,197	570,346
361,187	369,420	381,583	398,217	416,210	435,237	452,211
11,898	12,102	12,263	12,417	12,559	12,687	12,848
11,104	10,961	11,320	11,349	11,301	11,273	11,310
30,357	30,526	31,117	32,070	33,140	34,306	35,197
14.6	14.4	15.0	15.3	15.6	16.1	16.0
15.5	14.1	14.0	12.0	10.7	9.9	10.0
29.1	27.8	28.1	27.2	26.4	25.9	25.5
29.1	24.8	25.2	24.3	20.3	19.7	19.2

Composition of Revenue
2007–08

Chart 20


Other Non-Tax Revenue 8% $7.1B
Income from Government Enterprises 4% $4.0B
Ontario Health Premium 3% $2.6B
Gasoline and Fuel Taxes 3% $3.1B
Other Taxes 4% $3.4B
Employer Health Tax 5% $4.6B
Federal Payments 18% $16.1B
Personal Income Tax 25% $23.3B
Corporations Tax 12% $10.6B
Retail Sales Tax 18% $16.7B

Note: Numbers may not add due to rounding.

Composition of Total Expense
2007–08

Chart 21

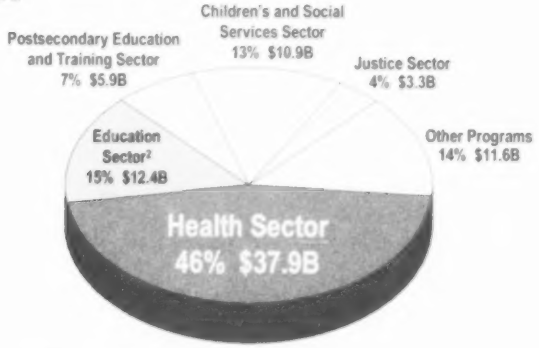
Children's and Social Services Sector 12% $10.9B
Justice Sector 4% $3.3B
Other Programs 13% $11.6B
Interest on Debt 10% $9.1B
Health Sector 42% $37.9B
Education Sector[1] 14% $12.4B
Postsecondary Education and Training Sector 6% $5.9B

[1] Excludes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

Composition of Program Expense[1]
2007–08

Chart 22


Children's and Social Services Sector 13% $10.9B
Justice Sector 4% $3.3B
Other Programs 14% $11.6B
Health Sector 46% $37.9B
Education Sector[2] 15% $12.4B
Postsecondary Education and Training Sector 7% $5.9B

[1] Program expense equals total expense minus interest on debt.

[2] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation and support of hospitals, charities, amateur athletes, communities and the agricultural sector.

Support for Health Care, Charities, and Problem Gambling and Related Programs ($ Millions) — **Table 28**

	Interim 2006–07	Plan 2007–08
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,512	1,481
Ontario Trillium Foundation	100	105
Problem Gambling and Related Programs	36	37
Ontario Amateur Athletes	10	10
Commercial Casinos Revenue		
General Government Priorities	169	168
Total	**1,827**	**1,801**

Sources: Ontario Ministry of Public Infrastructure Renewal and Ontario Ministry of Finance.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, funding for charitable organizations through the Ontario Trillium Foundation, and problem gambling and related programs.

In 2007–08, an estimated $1,481 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals. While this level of support for hospitals from gaming revenue is down slightly from last year, hospitals' net expense on a consolidated basis will increase by $834 million this year to $17.5 billion made up from other government revenues.

In 2007–08, the Ontario Trillium Foundation will be provided with $105 million to help build strong and healthy communities through contributions to charitable and not-for-profit organizations.

Two per cent of gross slot machine revenue, estimated at $37 million for 2007–08, is allocated for problem gambling prevention, treatment and research programs.

The Quest for Gold Lottery will provide an estimated $10 million for 2007–08 in direct financial support to Ontario high-performance amateur athletes. This funding will also support enhanced coaching and skills development.

Benefits from Commercial Casinos

In 2007–08, net Provincial revenue from commercial casinos, estimated at $168 million, will be used to support general government priorities, including health care, education and public infrastructure.

Commercial casino operations support approximately 12,000 direct jobs in Ontario. Along with local economic development, commercial casino operations and the additional tourists they attract contribute an estimated $2.4 billion annually to the Ontario economy.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over $2 billion to Ontario's horse-racing industry, a key component of the Province's agricultural sector. For 2007–08, additional support is estimated at $329 million.

SUPPORT FOR THE AGRICULTURAL SECTOR AND MUNICIPALITIES[1] TABLE 29
($ MILLIONS)

	Interim 2006–07	Plan 2007–08
Agricultural Sector	317	329
Municipalities	75	78
Total	**392**	**407**

[1] The agricultural sector's share of racetrack slot-machine revenue and municipalities' share of slot-machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Source: Ontario Ministry of Public Infrastructure Renewal.

A portion of gross slot-machine revenue, estimated at $78 million in 2007–08, will be provided to municipalities that host charity casinos and slot operations at racetracks. These revenues will help offset local infrastructure and service costs.

CONTINGENT LIABILITIES

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described as follows.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is

liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario consumer price index for the nuclear used fuel waste management fund. Ontario has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

Ontario provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2006, was $3.8 billion. The outstanding loans guaranteed and other contingencies amounted to $3.3 billion at March 31, 2006. A provision of $504 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been reflected in the 2005–06 Consolidated Financial Statements of the Province.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 5, 2007, there were $8.3 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 5, 2007, there were 100 claims outstanding against the Crown that were for amounts over $50 million.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

CHAPTER III

Ontario's Tax System Supports Expanded Prosperity

Overview

The tax system plays an important role in the McGuinty government's plan to build opportunities for all Ontarians. It provides the revenues to fund the priorities that matter most to Ontarians, such as health care and education. Specific tax measures also help to achieve the government's economic and social policy objectives. A modern, efficient, competitive and forward-looking tax system is fundamental to building a path to a stronger economy.

Taxes are one element of a competitive business environment that helps attract investment and promotes well-paying jobs. The new tax measures proposed in this Budget would help to foster strong and sustained economic growth in this province. In addition to reducing the Business Education Tax for businesses, the government is proposing to accelerate the elimination of the capital tax. The Budget proposes to maintain tax support for key sectors of the economy and activities in Ontario. The government is also continuing its ongoing efforts to modernize and streamline the tax system to allow businesses to spend less time on paperwork and more time creating jobs and fostering a strong, prosperous economy.

At the same time, this Budget proposes to strengthen support for those who need it the most — the vulnerable and children in low-income families. These measures would build on the government's accomplishments over the past three years and further advance the plan for long-term, sustainable economic growth. Over this period, tax and other measures have been introduced to assist seniors, children and low-income individuals. The government has also made landmark changes to increase transparency, accountability and administrative efficiency in the tax system.

This chapter provides information on measures proposed in the Budget. For precise details of these measures, the reader is advised to consult the amending legislation.

Enhancing Ontario's Investment Climate

Lower taxes on business attract investment to Ontario and help business compete in the global marketplace. Increased capital investment means more jobs, higher productivity, stronger communities and a better quality of life for Ontarians. See Chapter I, Section F: *Expanding Opportunities for Economic Growth* for more information.

Eliminating the Capital Tax in 2010

The capital tax, which currently raises about $1.3 billion per year, is widely recognized as a barrier to investment because it taxes investment rather than profits. In 2004, the government legislated a schedule to eliminate the capital tax by 2012. This plan is providing immediate benefits to business. The annual increases in the capital tax deduction result in tax savings to all businesses that pay capital tax and will eliminate capital tax entirely for more than 14,000 additional small- and medium-sized businesses by 2008. Further, the accelerated rate cut announced in the 2006 Ontario Budget provided a five per cent capital tax rate cut — two years earlier than the rate cuts were scheduled to begin. The capital tax

reductions since 2004 will have saved Ontario businesses over $375 million cumulatively by the end of 2007–08.

In the 2006 Ontario Budget, the government announced its intention to eliminate the capital tax in 2010 should the fiscal position allow. In this Budget, the government proposes to fulfil that goal and will introduce legislation to eliminate the capital tax effective July 1, 2010. Businesses would be able to reinvest more savings to grow, modernize their operations and create more jobs. Increased investment and employment create economic growth, which in turn generates additional tax revenues to support investments in health care, education and infrastructure.

Eliminating the capital tax will provide a revenue windfall to the federal government because corporations will no longer be deducting Ontario capital tax for federal corporate income tax purposes. Ontario estimates that the elimination of Ontario's capital tax would result in a federal gain of about $300 million per year.

To further promote economic growth, the Province is calling on the federal government to return this windfall gain to Ontario so that the Province can make additional investments to build a more prosperous economy.

Table 1 sets out the proposed accelerated capital tax elimination plan:

ONTARIO'S PROPOSED ACCELERATED CAPITAL TAX ELIMINATION PLAN — **TABLE 1**

	Deduction ($ M)	Rates (%)			
		Regular Corporations	Financial Institutions		
			1st $400 Million of Taxable Capital	Taxable Capital Above $400 Million	
				Non-Deposit Taking	Deposit Taking
Jan. 1, 2004	5	0.3	0.6	0.72	0.9
Jan. 1, 2005	7.5	0.3	0.6	0.72	0.9
Jan. 1, 2006	10	0.3	0.6	0.72	0.9
Jan. 1, 2007[1]	12.5	0.285	0.57	0.684	0.855
Jan. 1, 2008[1]	15	0.285	0.57	0.684	0.855
Jan. 1, 2009	15	0.225	0.45	0.54	0.675
Jan. 1, 2010	15	0.15	0.3	0.36	0.45
July 1, 2010[2]	Proposed Accelerated Elimination Date				
Jan. 1, 2011[3]	15	0.075	0.15	0.18	0.225
Jan. 1, 2012	Legislated Elimination Date				

5% cut

[1] Rates in table reflect the five per cent capital tax rate cut announced in the 2006 Ontario Budget and enacted on May 18, 2006.

[2] Elimination would be pro-rated for taxation years straddling the effective date.

[3] Rates in the absence of the accelerated elimination proposed in this Budget.

Corporate Tax Harmonization

In October 2006, Ontario and the federal government signed a memorandum of agreement to transfer administration of certain Ontario corporate taxes to the Canada Revenue Agency effective for taxation years ending after 2008. These taxes include Ontario's corporate income tax and capital tax.

Moving to a single corporate tax administration would eliminate duplication and simplify tax compliance. Ontario businesses would save up to a total of $100 million per year from one tax form, one tax administration and one set of tax rules. It would allow Ontario businesses to focus less on paperwork and more on what they do best — creating jobs and fostering a strong, prosperous economy.

As part of federal administration, Ontario agreed to harmonize with the federal corporate income tax base. To improve Ontario's competitiveness and enhance the benefits from tax base harmonization, the *2006 Economic Outlook and Fiscal Review* proposed that only two of Ontario's existing differences from the federal corporate income tax base be replaced:

- A 4.5 per cent non-refundable tax credit was proposed to replace the current deduction for the portion of the federal investment tax credit that relates to scientific research and experimental development in Ontario.

- A tax credit and debit mechanism was proposed to maintain the effect of Ontario's existing resource allowance for the mining and oil and gas sectors.

Corporate income tax base harmonization would provide a $90 million annual Ontario corporate income tax cut. This is in addition to the annual tax compliance savings of up to $100 million.

This Budget proposes further measures to support corporate income tax base harmonization and reduce tax compliance costs for business. These measures are described later in this Chapter.

Enhanced Dividend Tax Credit

In November 2006, legislation was passed to encourage greater investment in Ontario corporations and to better integrate the corporate and personal income tax systems by paralleling the federal enhancement of the dividend tax credit (DTC). This initiative promotes investment by Ontarians by bringing the tax rate on dividends more in line with the tax rates on other types of investment income. Ontario taxpayers will pay less tax on their dividends from large Canadian corporations, which will create a more competitive business and investment climate.

Dividend Tax Credit

In Canada, corporate income is subject to federal and provincial corporate income taxes. If distributed as dividends to individuals, this income is also subject to federal and provincial personal income taxes.

Before 2006, the personal income tax system provided partial relief to individuals from corporate income taxes on dividends paid by Canadian corporations. This relief was provided to taxable individuals resident in Canada (eligible shareholders) through the gross-up and DTC as follows:

- The eligible shareholder included the taxable dividend in income for tax purposes to represent the before-tax income earned by the corporation. The taxable dividend was equal to the amount of the dividend received plus 25 per cent (the gross-up).

- The eligible shareholder received a federal non-refundable tax credit equal to 13.33 per cent of the taxable dividend and an Ontario non-refundable tax credit of 5.13 per cent of the taxable dividend to offset the income tax paid at the corporate level.

- This mechanism assumed a 20 per cent notional federal–provincial corporate income tax rate.

The combined federal–provincial income tax rate for most corporate income other than small business income is higher than 20 per cent. As a result, dividends distributed to shareholders by large corporations could be subject to a combined corporate and personal income tax rate higher than that on other types of investment income.

Enhancements to the DTC for Eligible Dividends

In November 2005, the federal government proposed to reduce the federal income taxes payable on dividends from income subject to the federal general corporate income tax rate (eligible dividends).

ONTARIO DIVIDEND TAX CREDIT RATE — **TABLE 2**

Taxation Year	Rate for Eligible Dividends (%)	Rate for Other Canadian Dividends (%)
2005	5.13	5.13
2006	6.5	5.13
2007	6.7	5.13
2008	7.0	5.13
2009	7.4	5.13
2010	7.7	5.13

To accomplish this, the federal government has provided an enhanced gross-up and DTC for eligible dividends. For 2006 and future tax years, eligible dividends are grossed up by 45 per cent, meaning that shareholders include in income a taxable dividend equal to 145 per cent of the dividend received. The federal DTC for eligible dividends is 18.97 per cent, which is based on the 2010 federal corporate income tax rate.

To better integrate corporate and personal income taxes and to ensure greater consistency with taxes on other types of investments, the Ontario Government is providing an enhanced provincial DTC on eligible dividends. The enhanced DTC is being phased in from 2006 to 2010. (See Table 2 for rates.)

When fully phased in, the enhanced DTC will fully offset Ontario's 12 per cent corporate income tax rate for manufacturing, processing, farming, fishing, logging and mining income for individuals who are paying personal income tax at Ontario's top marginal tax rate.

The 25 per cent gross-up and 5.13 per cent DTC continue to apply to Canadian dividends that are not eligible for the enhanced gross-up and DTC.

This measure will provide Ontario personal income tax savings to Ontario investors of approximately $40 million in 2006–07, rising to $120 million in 2010–11, when the enhancement is fully phased in.

SUPPORTING KEY PRIORITIES

In addition to maintaining a positive investment climate, the tax system is an essential tool for supporting the government's social and economic policy objectives. For example, Ontario's tax system provides low-income Ontarians with additional financial resources for a better quality of life and enhanced opportunities.

Relief for Low-Income Ontarians

Ontario Child Benefit

This Budget proposes a major restructuring of Ontario's child benefits system with the creation of a new Ontario Child Benefit (OCB) to support children in low-income families.

The new OCB would provide an additional $2.1 billion cumulatively in benefits over the first five years to nearly 1.3 million children in over 600,000 families. See Chapter I, Section A: *Expanding Opportunities for Children and Families*, for further details.

Ontario Property and Sales Tax Credits for Seniors

Ontario Property and Sales Tax Credits for seniors provide property and sales tax assistance to seniors with modest incomes. Since 2003, the government has made several changes to these credits to ensure that they better reflect the circumstances facing seniors.

The Government of Ontario wants seniors who receive the minimum level of income guaranteed by the government from Old Age Security (OAS), Guaranteed Income Supplement (GIS) and Ontario Guaranteed Annual Income System (GAINS) to get the full benefit of the Ontario Property and Sales Tax Credits. Because this level of income is rising, the Province proposes to increase the senior couples' income threshold for these credits beginning in 2007. The new threshold would be determined when the federal government finalizes OAS and GIS amounts for 2007. See Chapter I, Section A: *Expanding Opportunities for Children and Families*, for more information.

Ontario Home Electricity Relief

To help with the higher electricity costs of this past year, the government has provided more than $100 million in one-time payments to approximately 1.5 million low-income Ontario families. The Ontario Home Electricity Relief program has provided up to $60 for single people and up to $120 for families of two or more, including children. The majority of payments were issued in the fall of 2006.

Universal Child Care Benefit

The government recognizes the importance of maintaining support for families and children in need of government assistance. Legislation has been enacted to ensure that eligibility for the Ontario Child Care Supplement for Working Families, Ontario Property and Sales Tax Credits and other income-tested provincial programs is not affected by the new federal Universal Child Care Benefit. The government has also ensured that eligibility for means-tested programs, like social assistance, does not change because of the introduction of this federal benefit.

Supporting the Environment

Protecting the environment is key to maintaining the well-being and health of Ontario's communities. The Province has implemented a number of initiatives to improve air quality and encourage energy conservation, including retail sales tax (RST) initiatives. For example, to make fuel-efficient hybrid vehicles more attractive to Ontarians and support the auto industry's production of more fuel-efficient vehicles, the government doubled the RST rebate for qualifying hybrid vehicles from $1,000 to $2,000 as part of the 2006 Ontario Budget.

Rebate for Clean Home Energy Systems

To continue support for the production of cleaner energy, it is proposed that the temporary RST rebate for residential purchases of solar, wind, micro hydro-electric and geothermal energy systems be extended to purchases made before January 1, 2010.

Supporting an Innovative and Knowledge-Based Economy

Ontario's tax system is also used to encourage certain vital economic activities such as skills training and research and innovation. Innovative industries with high-value-added workers are engines of economic growth. See Chapter I, Section F: *Expanding Opportunities for Economic Growth*, for more information.

Apprenticeship Training Tax Credit

In 2004, the government introduced the Apprenticeship Training Tax Credit (ATTC) to encourage businesses to hire apprentices in certain skilled trades. The ATTC provides businesses with a 25 to 30 per cent refundable tax credit on salaries and wages paid to eligible apprentices who commence employment before January 1, 2008. Eligible apprentices must be in their first 36 months of an apprenticeship training program in designated construction, industrial, motive power and service trades.

To support the availability of skilled workers in key sectors of the economy, the government proposes to extend the ATTC to eligible apprentices who commence employment before January 1, 2012. Eligible expenditures would be salaries and wages paid prior to January 1, 2015.

In addition, the following six trades will be added to the list of 117 skilled trades that currently qualify for the ATTC:

- entertainment industry power technician
- process operator — power
- tractor-trailer commercial driver
- exterior insulated finish systems mechanic
- information technology call centre inside sales agent
- information technology call centre customer care agent.

The ATTC tax information bulletin will be updated, and eligibility for each of these trades will be retroactive to the date that the Ministry of Training, Colleges and Universities introduced the apprenticeship program.

Ontario Production Services Tax Credit

The film and television industry plays a vital role in underpinning the entertainment and creative cluster in Ontario. The government proposes to extend the 18 per cent tax credit rate for the Ontario Production Services Tax Credit for one year, until March 31, 2008. This proposed extension reflects the government's commitment to support Ontario's film and television industry and ensure that it remains strong and competitive.

Ontario Computer Animation and Special Effects Tax Credit

The government proposes to amend the 20 per cent refundable Ontario Computer Animation and Special Effects Tax Credit to allow any wholly owned subsidiary to claim eligible labour expenditures incurred by the parent corporation in respect of the subsidiary's production, effective for productions commencing after March 22, 2007. This proposal would simplify the claims process and would be similar to the treatment provided under the film and television tax credits.

Exemption for Destination Marketing Fees

To continue support for Ontario's tourism industry and the hotel industry's initiative in funding tourism marketing, the government proposes to extend the RST exemption for destination marketing fees (DMFs) for one year. Any DMFs billed on or before June 30, 2008 would qualify for exemption from the five per cent RST on accommodations.

Corporate Tax Harmonization and Simplification

On December 13, 2006, the *Strengthening Business through a Simpler Tax System Act, 2006* (Bill 174) was introduced. If enacted by the legislature, this bill would implement federal administration of Ontario's corporate income tax for taxation years ending after 2008.

This Budget proposes additional measures to further support corporate income tax base harmonization and tax simplification.

Supporting Research and Development

Ontario Research and Development Tax Credit

In calculating Ontario taxable income, Ontario currently provides a deduction equal to the portion of the federal investment tax credit (ITC) that relates to qualifying scientific research and experimental development (SR&ED) expenditures undertaken in Ontario. With corporate income tax base harmonization, this incentive will automatically expire for taxation years ending after 2008.

However, to ensure that Ontario maintains its competitive tax advantage for research and development (R&D), the *2006 Economic Outlook and Fiscal Review* proposed to replace this deduction with a 4.5 per cent non-refundable tax credit effective for taxation years ending after 2008. The tax credit would maintain the same total amount of support for Ontario-based SR&ED that is delivered through the deduction, which is currently estimated at $200 million a year.

This Budget outlines additional details of the proposed tax credit.

- An eligible expenditure is an expenditure that:
  - is incurred by a corporation during a taxation year ending after 2008 for SR&ED carried on through an Ontario permanent establishment, and
  - is a qualified SR&ED expenditure for purposes of the federal ITC.
- The new tax credit would be determined after the transitional tax credit and debit, and before the tax credit for Ontario corporate minimum tax.
- A corporation would have the option to waive all or part of its entitlement to the new credit.
- A 20-year carry-forward and three-year carry-back would be provided for unused tax credits, although no carry-back to a taxation year that ends before 2009 would be permitted.
- As under the federal ITC rules, partnerships would be entitled to flow the new credit through to active corporate members of the partnership.
- The new credit would be subject to recapture and change-of-control rules similar to those that apply to the federal ITC.
- Continuation rules would be provided to permit unused credits to be carried forward after an amalgamation or winding-up that is subject to subsection 87(1) or 88(1), respectively, of the *Income Tax Act* (Canada).

Adjustments to the Transitional Mechanism for SR&ED

For Ontario and federal corporate income tax purposes, taxpayers typically have tax pools with respect to amounts that can be carried over to another taxation year. These tax pools apply to various items including, for example, unclaimed deductions for losses and SR&ED expenditures. Currently, tax pool balances may be different for federal and Ontario purposes. However, upon harmonizing with the federal definition of taxable income, each Ontario tax pool balance will assume its federal value. In many cases, this will require upward or downward adjustments to the Ontario pools, which may result in future Ontario tax gains or losses for corporations. Bill 174, the *Strengthening Business through a Simpler Tax System Act, 2006*, proposes a five-year transitional mechanism that is designed to minimize the Ontario tax gains and losses that would otherwise arise in adopting the federal tax pool balances. By generally eliminating these tax gains and losses, the effect of the transitional mechanism is expected to be revenue neutral for the Province.

The proposed transitional mechanism first calculates the difference between the aggregate of the federal and Ontario tax pool balances. If the total Ontario balance exceeds the total federal balance, a tax credit is provided to reflect the corporation's Ontario tax loss that arises in moving to the lower total federal balance. Conversely, if the total federal balance exceeds the total Ontario balance, additional Ontario tax is charged to reflect the corporation's Ontario tax gain. The tax credit or additional Ontario tax (i.e., tax debit) is spread out evenly over five years, commencing with the corporation's first taxation year ending after 2008.

Two changes are proposed to this mechanism to provide transitional support to R&D companies in Ontario.

As noted above, the existing Ontario SR&ED incentive that excludes the portion of the federal ITC relating to Ontario SR&ED from Ontario taxable income expires for taxation years ending after 2008. The existing incentive is delivered in the taxation year in which the assistance provided through federal ITCs is recognized for purposes of the *Income Tax Act* (Canada), which is generally the taxation year following the taxation year in which the corresponding federal ITC is claimed. With this one-year lag and potential delays in claiming federal ITCs, there would be a gap between the incentive provided by the new 4.5 per cent tax credit and the existing incentive.

To eliminate this gap, it is proposed that the amount of a corporation's relevant federal ITCs earned in taxation years ending before 2009 would be added to the corporation's total Ontario balance, to the extent that those ITCs have not expired for federal purposes; have not been taken into account in the calculation of the existing Ontario incentive; and were not earned prior to the last time that control of the corporation was acquired. This adjustment for federal ITCs would provide a significant measure of relief to many R&D companies in Ontario.

Even with that adjustment, the transitional mechanism could still lead to a tax debit for an SR&ED performer where its federal SR&ED pool balance exceeds its Ontario SR&ED pool balance as of the beginning of its first taxation year ending after 2008. This difference could arise, for example, where a corporation has used federal ITCs, rather than its federal SR&ED pool, to reduce its federal income tax.

To provide additional relief in these circumstances, it is proposed that a corporation be allowed to defer tax debits relating to its federal SR&ED pool balance. The corporation could elect to reduce the amount of its total federal balance by the lesser of two amounts. The first amount would be equal to the excess of its federal SR&ED pool balance over its Ontario SR&ED pool balance minus the amount of its adjustment for federal ITCs. The second amount would be the amount by which its total federal balance (determined without reference to the election) exceeds its total Ontario balance.

If the electing corporation incurs sufficient ongoing SR&ED, tax debits relating to the reduction in the total federal balance could be deferred by at least seven years as follows:

- For taxation years ending after 2008 and before 2016, a corporation would maintain a cumulative balance of its post-2008 SR&ED expenses. For each of those taxation years, the corporation's SR&ED tax deduction would be applied first against that cumulative balance. No tax debit would arise if the SR&ED tax deduction does not exceed the cumulative balance. If a corporation's SR&ED tax deduction exceeds the cumulative balance, the tax debit would be based on the extent to which the SR&ED tax deduction (up to the amount of the reduction in the total federal balance) exceeds the cumulative balance.

- For taxation years ending after 2015, a corporation's tax debit would be based on its SR&ED tax deduction for the year and no longer on its cumulative balance.

Further Enhancements to Tax Harmonization and Simplification

Corporate Minimum Tax

The corporate minimum tax (CMT) ensures that larger corporations do not unduly reduce their Ontario income tax through the use of tax preferences. Corporate minimum tax payable is equal to the amount by which four per cent of net income, as determined for accounting purposes, exceeds corporate income tax. In order that the CMT generally acts as a prepayment of corporate income tax and does not result in an additional tax liability, a credit is provided for the amount of CMT paid. This CMT credit can be carried forward to be applied in years where corporate income tax exceeds CMT. At present, the carry-forward period for CMT credits is 10 years. Similarly, losses for CMT purposes can be applied against CMT income in the subsequent 10 years.

Extending the Carry-Forward of CMT Credits and Losses

The Budget proposes to extend the 10-year carry-forward period for CMT credits and losses to 20 years. This would parallel the recent extension of the carry-forward period for non-capital losses from 10 years to 20 years that applies for corporate income tax purposes. It would also give corporations increased flexibility to fully claim CMT credits under the harmonized corporate income tax base.

The carry-forward period for CMT credits and losses attributable to taxation years ending after March 22, 2007, would be increased from 10 years to 20 years.

For taxation years ending after 2008, it is further proposed that the carry-forward period for CMT credits relating to taxation years ending before March 23, 2007, be extended by 10 years to provide a total 20-year carry-forward. This measure would apply to CMT credits outstanding at the beginning of a corporation's first taxation year ending after 2008.

Simplifying CMT Compliance and Administration

To ensure that the CMT does not hinder the ability of corporations to reorganize their business affairs, corporations are allowed to exclude from their CMT income accounting gains that are deferred on a corporate reorganization for income tax purposes. A gain is deferred until the asset is disposed of in a transaction not involving a corporate reorganization. This deferral also applies to gains arising from the replacement of assets where a deferral is provided for income tax purposes. The rules that apply to these situations can be complex and often require taxpayers to track the gains over many years.

To further support the government's efforts to reduce tax compliance costs and streamline tax administration, the Budget proposes to simplify these rules, which includes eliminating the need to track gains. The Budget proposes to exempt from CMT the accounting gains arising from corporate reorganizations or the replacement of assets. In addition, when a transferee disposes of a property that was acquired from a transferor that deferred the CMT gain, the transferee would no longer be liable for CMT on that deferred gain. These measures would apply to a disposition, amalgamation or winding-up completed after March 21, 2007.

Amendments are also proposed to prevent a corporation from receiving a double deduction for losses where a subsidiary amalgamates with or is wound up into the corporation. The amendments would repeal the provisions that allow a flow-through of the subsidiary's losses to the corporation, and would permit the corporation to deduct the full accounting loss. This measure would apply to an amalgamation or winding-up completed after March 21, 2007.

Special Additional Tax on Life Insurers

The special additional tax (SAT) is a tax paid by life insurance companies. To maintain the effect of SAT under the harmonized corporate income tax base, Ontario proposes to introduce a SAT carry-forward credit effective for taxation years ending after 2008. The credit would be equal to the amount of SAT paid for a taxation year ending after 2008. The credit could be applied in a future taxation year to reduce Ontario income tax payable in excess of the greater of CMT (calculated without reference to the future year's income tax liability) and SAT (calculated without reference to the future year's income tax and CMT liability). The SAT credit would have the same carry-forward period of 20 years that is proposed for CMT.

Technical Amendments

A number of statutes contain references to the *Corporations Tax Act* or *Income Tax Act*. Amendments will be proposed to add references to the *Taxation Act, 2006*, where required.

Paralleling Federal Tax Measures

Federal changes that affect shared tax bases can have an impact on provincial and territorial tax revenues. The federal government's 2006 budget announced several measures that reduce Ontario's revenues, including fully exempting scholarship income, providing a deduction for tools used by employed tradespersons, and certain capital gains measures. On October 31, 2006, the federal government announced that it would allow the splitting of pension income between spouses and common-law partners for tax purposes.

Pension Income Splitting

Beginning with the 2007 taxation year, couples would be allowed to split certain types of pension income for Ontario income tax purposes, subject to the relevant federal proposals receiving Royal Assent. This measure would provide about $170 million in Ontario personal income tax savings to couples with eligible income. See Chapter I, Section A: *Expanding Opportunities for Children and Families*, for more information.

Corporations Tax Act

Corporate Minimum Tax — Unrealized Gains and Losses

Recent changes to Canadian accounting standards require corporations to report certain assets at fair market value rather than historical cost. Furthermore, these standards require any gain or loss accruing on an asset held at the end of a fiscal period to be recognized in net income for that period. The accounting standards could have a significant impact on a corporation's CMT liability.

Ontario proposes to amend the CMT rules to remove the impact of the recent accounting changes. Income for CMT purposes would be calculated without reference to unrealized gains and losses that are not required to be included in computing income for income tax purposes.

Similar adjustments would be made when calculating a corporation's total assets for the purpose of determining whether the corporation qualifies for the CMT exemption for small corporations.

These measures would be effective for taxation years ending after March 22, 2007.

Electricity Act, 1998

Payments-in-Lieu

The *Electricity Act, 1998* requires public electricity utilities that are exempt from corporate income tax to make payments-in-lieu (PILs) equal to the amount of tax they would be liable to pay if they were not exempt. This ensures fair tax treatment between public- and private-sector electricity utilities.

Like private-sector corporations, public electricity utilities will benefit from the scheduled reductions in the federal corporate income tax rate, elimination of the federal capital tax and accelerated elimination of Ontario's capital tax.

The Budget proposes to introduce the following amendments to maintain a level playing field between public and private electricity utilities and their shareholders.

- Rules would confirm the current administrative practice of allowing public electricity utilities to defer PILs on rollovers under sections 85 and 97 of the *Income Tax Act* (Canada). The rules would also confirm that rollovers are only available when transferring assets to a corporation if the corporation is subject to PILs or to a partnership if all the partners are subject to PILs. In addition, effective for taxation years ending after March 22, 2007, a partnership would be deemed to dispose of all its assets at fair market value where a partner ceases to be subject to PILs or where an entity not subject to PILs acquires an interest in the partnership.

- While corporations can usually deduct interest paid to their shareholders from their taxable income, shareholders must include the interest received in their taxable income. However, unlike most shareholders, municipalities are not subject to tax or PILs on interest. To prevent the potential for excessive interest deductions by municipal electricity utilities (MEUs), new rules would make the deductibility of interest by MEUs consistent with the proposed Ontario Energy Board cost-of-capital rules. The new rules would limit the interest rate on debt to municipalities and impose a debt-to-equity ratio. These measures would be effective for all interest payments made by all MEUs to municipalities after March 22, 2007.

- Some MEUs operate businesses other than electricity distribution and generate significant deductions and losses from such businesses. New rules will be proposed to ensure that deductions and losses from a particular business are only used to offset income from that particular business. These measures would be effective for taxation years ending after March 22, 2007.

Fuel Tax Act

Railway Fuel

The *Fuel Tax Act* requires railways to use clear fuel for their Ontario operations. However, where railways operate across provincial and international boundaries, they may encounter requirements to use coloured fuel in adjacent jurisdictions. To minimize the burden on railways to comply with the varying requirements, Ontario has adopted an administrative practice that permits railways to use coloured fuel for their Ontario operations.

Amendments to the *Fuel Tax Act* will be proposed to reflect current administrative practice and ensure railways are registered with Ontario for fuel tax purposes.

Ministry of Revenue staff will communicate with railways operating in Ontario in developing a registration system that will support the appropriate reporting and remittance of fuel tax.

Retail Sales Tax Act

Simplified Calculation for Small Software Businesses

As announced in the 2005 Ontario Budget, the Ministry of Finance launched an RST pilot project for small software businesses. The pilot project recognized that software vendors often provide multiple software services together, requiring use of the regular tax calculation that separates taxable from non-taxable services. The pilot project to simplify the calculation of tax, which began April 1, 2006, allows pilot-project registrants to use the optional simplified RST calculation method of six per cent applied to the total contract price of the software services. It is proposed to extend the pilot period to March 31, 2009, to allow more time to evaluate the effectiveness of the pilot project.

Tax Credit for Fuel Conservation

An amendment is proposed to the provisions of the Tax Credit for Fuel Conservation to address an administrative issue arising from certain lease financing situations. The proposed amendment would allow

the credit to be deducted from vendors' remittances to ensure the credit is properly provided and accounted for by the vendor.

Tobacco Tax Act

Improved Tobacco Tax Enforcement

To further enhance Ontario's efforts to enforce tobacco tax compliance and protect tobacco tax revenue, a number of enforcement measures are proposed, including:

- assigning additional resources to increase enforcement activities relating to the tobacco distribution and retail sector
- increasing sanctions and enforcement measures associated with the distribution and possession of contraband tobacco
- suspending a retailer's ability to sell tobacco products where the retailer has been found to be repeatedly in violation of the *Tobacco Tax Act*
- suspending other types of licences if a retailer has been found to be repeatedly in violation of the *Tobacco Tax Act*
- amending the *Tobacco Tax Act* to permit agreements with the Canada Border Services Agency to authorize the collection of tobacco tax on tobacco products brought into Ontario by post or courier.

These measures build on legislative changes enacted in 2004 and 2006.

Non-Tax Revenue

Diamond Royalty

Diamonds are a new commodity in Ontario and many aspects of diamond mining differ from those of more traditional mining in the province. Most mineral commodities, including diamonds, are subject to taxation under the *Mining Tax Act*. However, unlike other commodities whose value is set by world trade markets, rough diamonds are not traded on the open market and require a unique and separate system for determining their value. The government will be introducing a new valuation framework for diamonds in addition to other measures designed to ensure the long-term sustainability and global competitiveness of diamond production in Ontario.

The government is proposing to introduce a diamond royalty system under the *Mining Act*, similar to the royalty systems of other Canadian diamond-mining jurisdictions. Effective after March 22, 2007, a royalty on the value of a diamond mine's output would be payable by the operator of a mine at the lesser of:

- 13 per cent of the annual value of the output of the mine, and
- the amount calculated on the value of output according to the following graduated scale:
  - five per cent on the annual value of output in excess of $10,000 and up to $5 million
  - six per cent on the annual value of output in excess of $5 million and up to $10 million
  - an additional one percentage point on each additional $5 million in value of output in excess of $10 million to a maximum of 14 per cent on the value of output in excess of $45 million per year.

With the introduction of a royalty on diamonds, Ontario is proposing to exclude diamonds from taxation under the *Mining Tax Act*, effective after March 22, 2007.

Other Technical Amendments

To improve administrative effectiveness and enforcement, and maintain the integrity and equity of Ontario's tax system, as well as enhance legislative clarity and regulatory flexibility to preserve policy intent, legislation will be proposed, including amendments to the following statutes:

- *Assessment Act*
- *City of Toronto Act, 2006*
- *Community Small Business Investment Funds Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Mining Act*
- *Mining Tax Act*
- *Ministry of Revenue Act*
- *Municipal Act, 2001*
- *Police Services Act*
- *Provincial Land Tax Act, 2006*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*.

2007 Budget Impact Summary[1]
($ Millions)

Table 3

	2007–08	2008–09	2009–10
Enhancing Ontario's Investment Climate			
Eliminating the Capital Tax in 2010	–	–	(5)
Supporting Key Priorities			
Ontario Property and Sales Tax Credits for Seniors[2]	(6)	(6)	(6)
Rebate for Clean Home Energy Systems	–	(1)	(1)
Apprenticeship Training Tax Credit	(20)	(95)	(95)
Ontario Production Services Tax Credit	(10)	–	–
Ontario Computer Animation and Special Effects Tax Credit	–	–	–
Exemption for Destination Marketing Fees	(2)	(1)	–
Corporate Tax Harmonization			
Corporate Tax Harmonization and Simplification	(5)	(5)	(5)
Paralleling Federal Tax Measures			
Pension Income Splitting	(170)	(185)	(200)
Technical Measures	–	–	–
Non-Tax Revenue			
Diamond Royalty	–	–	–
Total Revenue Changes	**(213)**	**(293)**	**(312)**

– Small, non-existent or prevents revenue loss.

[1] Numbers may not add due to rounding.

[2] Estimate based on anticipated adjustment to the 2007 income threshold for senior couples.

CHAPTER IV

Borrowing and Debt Management

Long-Term Public Borrowing

As an agency of the Ministry of Finance, the primary responsibility of the Ontario Financing Authority (OFA) is to manage the borrowing, debt, investment and cash management activities of the Province and the Ontario Electricity Financial Corporation (OEFC) in a timely and cost-effective manner. The OEFC is the agency of the Province responsible for managing the debt and certain other liabilities of the former Ontario Hydro Inc.

The interim long-term public borrowing requirement for 2006-07 is $18.7 billion, down $2.1 billion from the $20.8 billion estimated in the 2006 Budget Plan. This decline is largely due to the elimination of the deficit.

Approximately $14.2 billion, or 76 per cent, of the borrowing program was completed in the domestic bond market through a number of instruments, including:

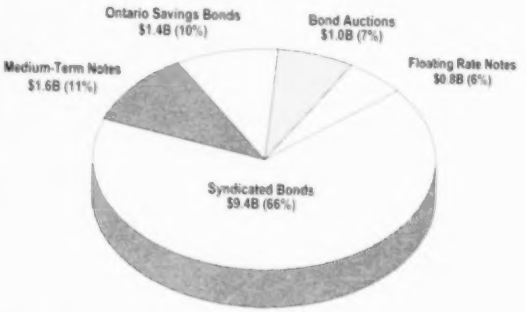
- syndicated bonds
- medium-term notes
- Ontario Savings Bonds
- bond auctions
- floating rate notes.

The Province also issued bonds in other currencies, including:

- three $1 billion Global bonds in U.S. dollars
- Euro Medium-Term Notes (EMTNs) in U.S. dollars, South African rand and, for the first time, Turkish lira
- an inaugural Kangaroo (Australian dollar) bond.

Borrowing – Domestic Market **Chart 1**

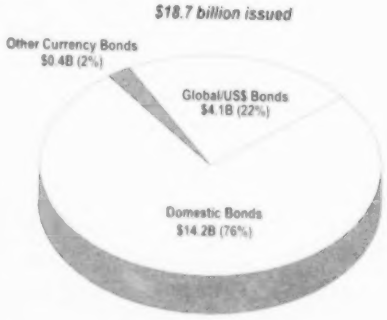
$14.2 billion issued



Source: Ontario Financing Authority

Borrowing – All Markets **Chart 2**

$18.7 billion issued



Source: Ontario Financing Authority

The OFA maintained a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs and diversify the borrowing program. Approximately $4.5 billion, or 24 per cent, of the borrowing program was raised from international markets.

The format of the borrowing table has changed from the 2006 Ontario Budget to more clearly communicate the Province's borrowing program and its drivers. The top half of the table contains items that make up the Total Funding Requirement. Total Long-Term Public Borrowing Requirement is reached by adjusting the Total Funding Requirement by Canada Pension Plan Borrowing and net changes in Short-Term Borrowing and Cash. Non-Cash Items Included in Deficit was renamed Non-Cash Adjustments, which now includes Amortization of Major Tangible Capital Assets. Other Uses /(Sources) of Cash was renamed Net Loans/Investments.

2006–07 Borrowing Program: Province and OEFC **Table 1**
($ Billions)

	Budget Plan	Interim	In-Year Change
Deficit /(Surplus)	2.4	(0.3)	(2.7)
Non-Cash Adjustments	(1.2)	0.2	1.4
Investment in Capital Assets	2.5	2.6	0.1
Net Loans/Investments	0.2	0.6	0.3
Debt Maturities:			
Currently Outstanding	15.1	14.0	(1.2)
Incremental Impact of Future Financing	–	–	–
Debt Redemptions	0.7	1.0	0.3
Total Funding Requirement	**19.8**	**18.1**	**(1.7)**
Canada Pension Plan Borrowing	(0.4)	(0.2)	0.2
Decrease /(Increase) in Short-Term Borrowing	1.4	1.3	(0.1)
Increase /(Decrease) in Cash and Cash Equivalents	–	(0.5)	(0.5)
Total Long-Term Public Borrowing Requirement	**20.8**	**18.7**	**(2.1)**

Note: Numbers may not add due to rounding.

Medium-Term Borrowing Outlook: Province and OEFC **Table 2**
($ Billions)

	2007–08	2008–09	2009–10
Deficit /(Surplus)	0.4	(0.3)	(0.4)
Non-Cash Adjustments	(0.5)	(0.8)	(0.7)
Investment in Capital Assets	3.3	3.5	4.0
Net Loans/Investments	1.2	0.9	0.2
Debt Maturities:			
Currently Outstanding	14.4	20.1	14.4
Incremental Impact of Future Financing	–	–	0.6
Debt Redemptions	0.9	0.7	0.7
Total Funding Requirement	**19.7**	**24.1**	**18.8**
Canada Pension Plan Borrowing	(0.4)	(0.6)	(0.7)
Decrease /(Increase) in Short-Term Borrowing	(0.5)	(0.6)	0.9
Increase /(Decrease) in Cash and Cash Equivalents	–	–	–
Total Long-Term Public Borrowing Requirement	**18.8**	**22.9**	**19.0**

Note: Numbers may not add due to rounding.

Refinancing maturing debt remains the primary component of the medium-term borrowing outlook. Debt maturities for the Province and the OEFC are projected at $14.4 billion in 2007–08, $20.1 billion in 2008–09 and $15.0 billion in 2009–10.

As long as cost-effective opportunities continue to be available, at least 25 per cent of the long-term borrowing program will be raised from international markets.

The government will seek approval by the legislature for additional borrowing authority to meet program requirements. In addition, it will propose amendments to the *Capital Investment Plan Act, 1993* to support the execution of the borrowing program by the OFA.

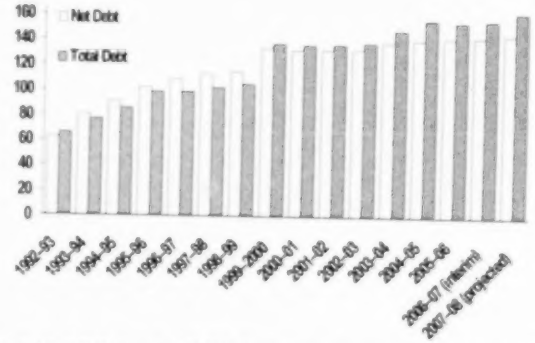
DEBT

The Province's total debt is projected to be $157.1 billion as at March 31, 2007, compared to $154.9 billion as at March 31, 2006. Total debt represents all borrowing without offsetting financial assets.

Ontario's net debt, the difference between total liabilities and total financial assets, was $141.9 billion as at March 31, 2006, and is projected to be $143.0 billion as at March 31, 2007.

Debt **Chart 3**

($ Billions)



Sources: Ontario Public Accounts 1993–2006, Ontario Ministry of Finance, Ontario Financing Authority

While the Province is projecting a surplus for 2006–07, total debt is expected to increase due to the government's capital investments in key priority areas and loans to school boards for capital projects. The increase in net debt is primarily a result of the government's capital investments.

Investing in these projects is similar to a family investing in a house using a mortgage, which is paid off over time. Like a mortgage, where the total amount is borrowed at the time a house is purchased, the government borrows the entire amount required to invest in capital investments during construction. This increases total and net debt. On an annual basis, the impact on the government's deficit or surplus is limited to the amortization costs of these capital investments. Amortization spreads the cost of these investments over the useful life of the assets, instead of charging the total costs upfront for an asset that will be used for many years.

Debt of the Ontario Infrastructure Projects Corporation ("OIPC" or "Infrastructure Ontario") is projected to be $1.3 billion as at March 31, 2007. This debt is included in total debt; however, the impact on net debt is minimal, as its debt is offset by projected net assets of $1.1 billion. Infrastructure Ontario's debt is not guaranteed by the Province.

Interim 2006–07 results for the OEFC show an excess of revenue over expense of $0.8 billion, reducing its unfunded liability (or "stranded debt of the electricity sector") from $19.3 billion to $18.5 billion as at March 31, 2007. This is the third consecutive year in which stranded debt has been paid down. Projected

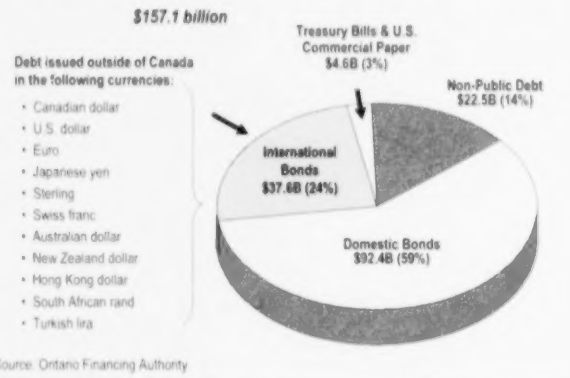
2007–08 results for the OEFC are an excess of revenue over expense of $1.1 billion, resulting in a further projected reduction in its unfunded liability to $17.4 billion as at March 31, 2008.

Total Debt Composition

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.

Public debt totals $134.6 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has $22.5 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of non-marketable debt instruments issued to public-sector pension funds and government agencies, including the Canada Pension Plan (CPP).

Total Debt Composition — Chart 4



Source: Ontario Financing Authority

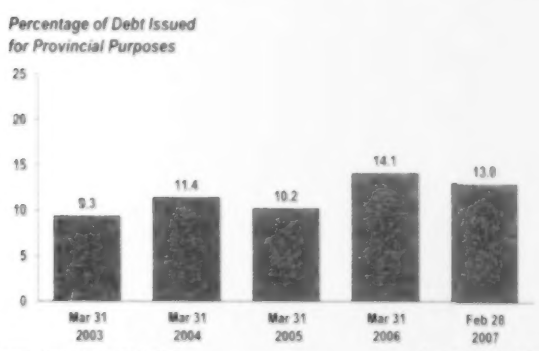
Debt Management

The Province mitigates the financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. In fiscal 2006–07, the interest rate resetting exposure policy limit was increased from 25 per cent to allow the Province to take advantage of lower floating rates.

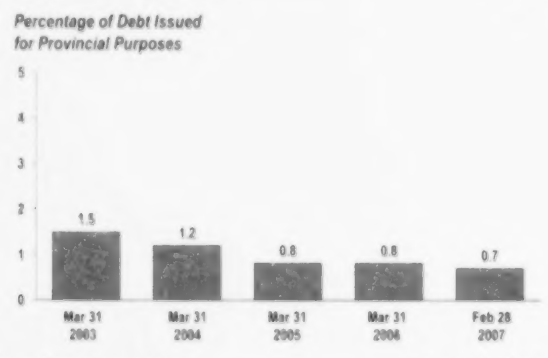
All exposures remained well below policy limits in fiscal 2006–07.

Interest Rate Resetting Exposure — Chart 5



Source: Ontario Financing Authority — Excludes OEFC debt

Foreign Exchange Exposure — Chart 6

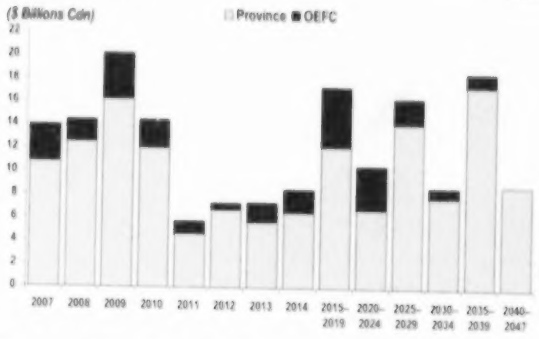


Source: Ontario Financing Authority — Excludes OEFC debt

Debt Maturities

The most significant component of the borrowing program is the refinancing of maturing debt. The OFA will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities **Chart 7**



Excludes Province of Ontario and OEFC short-term debt and other liabilities. Assumes issues with options will be retired at the earliest possible date. Excludes the incremental impact of future financing.

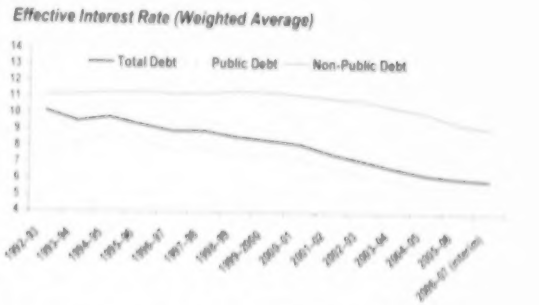
Source: Ontario Financing Authority

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt is estimated to be 6.02 per cent as at March 31, 2007 (March 31, 2006, 6.14 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

As at March 31, 2007, the effective interest rate on public debt is estimated at 5.48 per cent (5.52 per cent as at March 31, 2006), compared to an estimated 9.24 per cent on non-public debt (9.49 per cent as at March 31, 2006).

Effective Interest Rate (Weighted Average) of Debt **Chart 8**



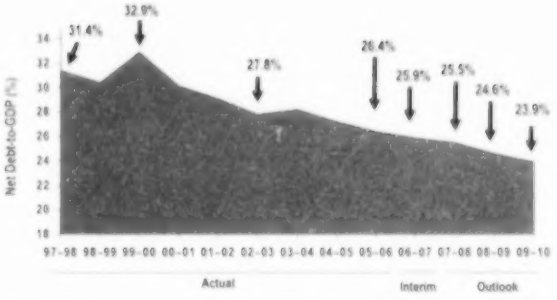
Sources: Ontario Public Accounts 1993–2006 and Ontario Financing Authority

Until May 2006, the Bank of Canada continued to increase its benchmark target for the overnight interest rate. The overnight rate has not changed since that time as economic growth has moderated. Long-term rates remain near their lowest level in 50 years, resulting in a flatter yield curve.

Net Debt-to-GDP

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or "stranded debt") of the OEFC. Since then, Ontario's net debt-to-GDP ratio has trended downward, declining from 26.4 per cent in 2005–06 to 25.9 per cent in 2006–07. The current outlook projects a ratio of 25.5 per cent in 2007–08, 24.6 per cent in 2008–09 and 23.9 per cent in 2009–10.

Net Debt-to-GDP **Chart 9**



Source: Ontario Ministry of Finance

Consolidated Financial Tables

Net Debt and Accumulated Deficit
Interim 2007

Table 3
($ Millions)

	2002–03	2003–04	2004–05	2005–06	Interim 2006–07	Plan 2007–08
Debt[1]						
Publicly Held Debt						
Bonds[2]	102,958	116,732	125,279	123,129	128,682	134,948
Treasury Bills	6,274	3,359	3,747	5,215	4,398	4,948
U.S. Commercial Paper[2]	1,515	1,156	269	706	195	195
Ontario Infrastructure Projects Corporation (OIPC)[3]	–	323	1,288	1,323	1,271	2,693
Other	438	422	404	387	–	–
	111,185	121,992	130,987	130,760	134,548	142,784
Non-Public Debt						
Canada Pension Plan Investment Fund	10,746	10,233	10,233	10,233	10,233	10,233
Ontario Teachers' Pension Fund	10,387	9,487	8,666	7,596	6,411	4,466
Public Service Pension Fund	3,200	3,052	2,886	2,705	2,501	2,260
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,520	1,450	1,371	1,285	1,188	1,073
Canada Mortgage and Housing Corporation	1,078	1,047	1,003	960	913	864
Other[4]	356	1,096	1,231	1,367	1,308	1,289
	27,287	26,365	25,390	24,146	22,554	20,185
Total Debt	**138,472**	**148,357**	**156,377**	**154,906**	**157,102**	**162,969**
Cash and Temporary Investments	(7,252)	(8,139)	(13,422)	(6,258)	(5,726)	(5,750)
Other Net (Assets)/Liabilities[5]	1,427	(1,089)	(769)	(5,398)	(7,240)	(9,367)
OIPC Net (Assets)/Liabilities[3]	–	(313)	(1,265)	(1,322)	(1,111)	(2,538)
Net Debt	**132,647**	**138,816**	**140,921**	**141,928**	**143,025**	**145,314**
Non-Financial Assets[6]	(13,942)	(14,628)	(15,178)	(32,773)	(34,180)	(36,069)
Accumulated Deficit[7]	**118,705**	**124,188**	**125,743**	**109,155**	**108,845**	**109,245**

[1] Includes debt issued by the Province and Government Organizations, including the OEFC.

[2] All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

[3] OIPC's interim 2006–07 debt is composed of Ontario Opportunity Bonds ($323 million), Infrastructure Renewal Bonds ($650 million) and short-term commercial paper ($300 million). OIPC's debt is not guaranteed by the Province. OIPC Net (Assets)/Liabilities include cash, temporary investments, accounts receivable, loans receivable, debt issue costs, accounts payable and loans payable.

[4] Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrant Investor Corporation and indirect debt of school boards (the indirect debt of school boards was incurred in June 2003 to refinance the non-permanently financed debt of 55 school boards; an equivalent amount is included in Net Assets as advance payments to school boards).

[5] Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, pensions and the liability for power purchase agreements with non-utility generators.

[6] Non-financial assets include the Province's tangible capital assets and net assets of hospitals, school boards and colleges, which, starting with fiscal year 2005–06, are consolidated using one-line consolidation.

[7] Accumulated deficit represents net debt adjusted for non-financial assets. Starting with 2005–06, accumulated deficit includes the opening combined net assets of hospitals, school boards and colleges.

Source: Ontario Ministry of Finance.

Debt Maturity Schedule

Table 4

Interim 2007

($ Millions)

	Currency						
	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currencies[2]	Interim 2006–07 Total	2005–06 Total
Fiscal Year Payable							
Year 1	13,371	5,390	320	–	223	19,304	21,421
Year 2	15,083	4,095	–	795	265	20,238	14,019
Year 3	9,068	1,628	714	1,443	870	13,723	19,416
Year 4	6,195	–	–	–	252	6,447	13,115
Year 5	5,956	1,136	–	–	47	7,139	6,254
1–5 years	49,673	12,249	1,034	2,238	1,657	66,851	74,225
6–10 years	23,222	7,607	99	1,188	2,018	34,134	29,980
11–15 years	6,424	–	–	–	–	6,424	4,694
16–20 years	12,300	–	–	–	–	12,300	11,766
21–25 years	13,606	–	–	–	–	13,606	12,843
26–40 years[3]	23,787	–	–	–	–	23,787	21,398
Total[4]	**129,012**	**19,856**	**1,133**	**3,426**	**3,675**	**157,102**	**154,906**
Debt Issued for Provincial Purposes	104,060	16,562	1,133	3,426	2,748	127,929	125,550
OEFC Debt	23,679	3,294	–	–	927	27,900	28,033
OIPC Debt	1,273	–	–	–	–	1,273	1,323
Total[5]	**129,012**	**19,856**	**1,133**	**3,426**	**3,675**	**157,102**	**154,906**

[1] Euro includes debt issued in Euro and French franc legacy currency.

[2] Other Currencies comprise Australian dollar, New Zealand dollar, Pound sterling, Swiss franc, Hong Kong dollar, South African rand and Turkish lira.

[3] The longest term to maturity is to June 2, 2047.

[4] Total foreign currency denominated debt as at March 31, 2007 is $28.1 billion (2006, $27.4 billion). Of that, $27.1 billion or 96.4 per cent (2006, $26.3 billion or 95.9 per cent) was fully hedged to Canadian dollars.

[5] Total debt includes issues totalling $2.7 billion (2006, $4.8 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

Medium-Term Outlook

Table 5

Net Debt and Accumulated Deficit

($ Billions)

	2008–09	2009–10
Total Debt	167.1	171.1
Cash and Temporary Investments	(5.8)	(5.8)
Other Net (Assets)/Liabilities	(10.9)	(11.7)
OIPC Net (Assets)/Liabilities	(3.4)	(4.4)
Net Debt	**147.0**	**149.2**
Non-Financial Assets	(38.1)	(40.6)
Accumulated Deficit	**108.9**	**108.6**

Note: Numbers may not add due to rounding.

Derivative Financial Instruments

The table below presents a preliminary maturity schedule of the Province and the OEFC's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the face value of outstanding derivative contracts and do not reflect credit or market risk, or actual cash flows.

Derivatives are financial contracts, whose value is derived from underlying instruments. The Province uses derivatives to hedge and minimize interest costs. Hedges are created primarily through swaps, which are an exchange of payment streams between two counterparties. Swaps allow the Province to offset existing obligations, effectively converting them into obligations with more desirable financial characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

Derivative Portfolio Notional Value
Interim 2007

Table 6
($ Millions)

Maturity in Fiscal Year	2007–08	2008–09	2009–10	2010–11	2011–12	6–10 Years	Over 10 Years	Interim 2006–07 Total	2005–06 Total
Swaps:									
Interest rate	13,743	12,204	8,743	2,111	2,553	24,441	4,470	68,265	64,735
Cross currency	6,113	5,304	5,736	503	1,232	12,508	–	31,396	28,435
Forward foreign exchange contracts	972	–	–	–	–	–	–	972	3,639
Caps and floors	50	–	88	–	–	–	–	138	532
Total	**20,878**	**17,508**	**14,567**	**2,614**	**3,785**	**36,949**	**4,470**	**100,771**	**97,341**

Glossary

Note: *The descriptions of the terms in the glossary are solely intended for the assistance of readers of the 2007 Budget. The glossary and the descriptions of the terms in the glossary are not intended to affect or alter the meaning of any terms under law.*

Accounting Period: time covered by financial statements, which can be for any length but is usually a fiscal year (April to March for the Province), a quarter or a month.

Accumulated Deficit: on the Province's statement of financial position, the difference between liabilities and assets. It represents the total of all past annual deficits minus all past annual surpluses, including prior period adjustments.

Amortization: the portion of an asset's cost allocated to an accounting period as a result of write-off over its estimated useful life.

Broader Public Sector (BPS): organizations receiving government transfer payments to provide services to the public. Such organizations include universities, colleges, school boards, hospitals, long-term care facilities, community care access centres and children's aids societies.

Brownfields: underdeveloped or previously developed properties that may be contaminated. They are usually, but not exclusively, former industrial or commercial properties that may be underutilized, derelict or vacant.

Business Education Tax (BET): taxes for education purposes levied on the basis of assessed values of properties in the commercial, industrial and pipeline property classes.

Canada Health Transfer (CHT): a federal transfer provided to each province and territory in support of health care.

Canada Pension Plan (CPP) Borrowing: the Province has the option of borrowing from the Canada Pension Plan as a source of long-term borrowing.

Canada Social Transfer (CST): a federal transfer provided to each province and territory in support of postsecondary education, social assistance and social services, including early childhood development and early learning and child care.

Capital Expenditure: money spent to acquire or upgrade physical assets including transportation infrastructure, land and buildings.

Capital Gain: the profit arising from the sale or transfer of capital assets or investments; i.e., the proceeds or market value received less the net book value of the capital asset or investment.

Change in Net Debt: the annual change in net debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges.

Consolidated Revenue Fund: the aggregate of all public monies on deposit to the credit of the Minister of Finance or in the name of any agency of the Crown approved by the Lieutenant Governor of Ontario.

Consolidation: the inclusion of the financial results of government-controlled organizations in the Province's consolidated financial statements.

Consumer Price Index (CPI): a measure of prices produced by Statistics Canada on a monthly basis. The CPI measures the retail prices of a shopping basket of about 300 goods and services including food, housing, transportation, clothing and recreation. The index is weighted to reflect typical spending patterns. The change in a price index like the CPI is a measure of inflation. Increases in the CPI are also referred to as increases in the cost of living.

Contingency Fund: an amount of expense available to address unanticipated spending pressures; for example, disaster assistance.

Debt: an obligation resulting from the borrowing of money.

Debt Maturities: total forecast amount of debt due for repayment on specific dates.

Debt Redemptions: total forecast amount of bond issues expected to be redeemed prior to maturity. Debt redemptions primarily relate to Ontario Savings Bonds.

Debt Term: remaining term to maturity of long-term debt.

Debt-to-GDP ratio: a measurement of the government's debt as a percentage of gross domestic product. It is a measure of the debt in relation to the economy and capacity to carry and repay debt.

Deficit: the amount by which government expenses exceed revenues in any given year. On a forecast basis, a reserve may be included.

Derivatives: financial contracts that derive their value from other underlying instruments. The Province uses derivatives including swaps, forward foreign exchange contracts, forward rate agreements, futures and options to hedge and minimize interest costs.

Domestic Bonds: debt securities issued in the domestic market, settling through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): debt issued outside the United States and Canada and structured to meet individual investor requirements.

Financial Assets: assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, an asset that is convertible to cash, a contractual right to receive cash or another financial asset from another party, a temporary or portfolio investment, a financial claim on an outside organization or individual and inventory.

Fiscal Plan: an outline of the government's consolidated revenue and expense plan for the upcoming fiscal year and the medium term, including information on the projected surplus/deficit. The plan is formally presented in the Budget, which the government presents in the spring of each year and is updated, as required, during the year. The Fiscal Plan numbers can be different from the expenditures outlined in the Printed Estimates.

Fiscal Policy: government policy on tax, spending and borrowing.

Fiscal Year: the Province of Ontario's fiscal year runs from April 1 to March 31.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index.

Floor: a contract that allows the purchaser to have a lower limit on the total rate of return of an asset.

Flow-Through: in the context of government benefits, a provincial government's act of *not* deducting part or the entire amount of a federal benefit, such as the National Child Benefit Supplement, from income-tested or means-tested benefits.

Forward Rate Agreement: a forward contract in which one party pays a fixed interest rate and receives a floating interest rate.

Fund: fiscal and accounting entity segregated for the purpose of carrying on specific activities, or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Futures: an exchange-traded contract that confers an obligation to buy or sell a physical or financial commodity at a specified price and amount on a future date.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies, including Canadian and U.S. dollars.

Greater Golden Horseshoe (GGH): an Ontario geographic region encompassing the Greater Toronto Area (GTA) and a large part of central Ontario, including Peterborough, Waterloo, Niagara and Simcoe.

Gross Domestic Product (GDP): the dollar value of all goods and services produced in the economy over an interval such as a quarter or a year.

Group of Seven (G7): the world's seven largest industrial market economies: United States, Japan, Germany, France, Britain, Italy and Canada. The leaders of these countries meet annually to discuss political and economic issues of mutual concern. In addition, G7 finance ministers meet several times a year to discuss economic policy. Their work is supported by regular functional meetings of officials, including the G7 Finance Deputies.

Income Test: in the context of government cash or in-kind benefits, the determination of eligibility and levels of assistance based on individual or family income.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash or other short-term liquid low-risk instruments that are readily convertible to cash typically within three months or less.

Interest on Debt Expense: the amount reported as an expense for borrowed money. Interest is calculated as a percentage of the amount of debt for each period of time.

Investment in Capital Assets: the cost of acquiring or upgrading major tangible capital assets owned by the Province and its consolidated organizations during the year, including land, buildings, highways and bridges.

Locked-in Accounts: a locked-in account is a prescribed retirement savings arrangement under the *Pension Benefits Act* to which members of registered pension plans may transfer funds when they terminate employment or cease membership in a pension plan. Current Ontario locked-in accounts include locked-in retirement accounts (LIRAs), life income funds (LIFs) and locked-in retirement income funds (LRIFs).

Means Test: the determination of eligibility for a government cash or in-kind benefit based on both the income and assets of the prospective recipient. *See* Income Test.

Medium-Term Notes (MTNs): debt instruments offered under a program and structured to meet specific investor needs.

National Child Benefit Supplement (NCBS): an income-tested federal cash benefit that supplements the Canada Child Tax Benefit — a similar benefit paid to about 80 per cent of families with children in Canada. The federal government provides the NCBS to all low-income families with children, regardless of whether they work or receive welfare.

Net Debt: the difference between the Province's total liabilities and financial assets.

Net Loans/Investments: the total funds paid by the Province towards loans/investments netted against loan repayments.

Nominal: an amount expressed in dollar terms without adjusting for changes in prices due to inflation or deflation. It is not a good basis for comparing values of GDP in different years, for which a "real" value expressed in constant dollars (i.e., adjusted for price changes) is needed. *See also* Real GDP.

Non-Cash Adjustments: adjustments required to determine the cash flows resulting from operating activities. Non-cash adjustments include changes in balance-sheet accounts such as accounts receivable and payable, prepaid expenses and deferred revenue. Amortization of capital assets is also a non-cash adjustment.

Non-Tax Revenue: revenue received by the government from external sources. This also includes revenues from the sale of goods and services, fines and penalties associated with the enforcement of government regulations and laws; fees and licences; royalties; profits from a self-sustaining Crown agency; and asset sales.

Ontario Child Care Supplement for Working Families (OCCS): an income-tested, non-taxable earnings supplement provided to low-income working families with children under age seven. It is intended to enhance labour-force attachment.

Ontario Disability Support Program (ODSP): the Ontario Disability Support Program is designed to meet the unique needs of people with disabilities who are in financial need, or who want and are able to work and need support. Ontarians 65 years or older who are not eligible for Old Age Security may also qualify for ODSP supports if they are in financial need.

The program has two components: Income Support and Employment Supports. Income Support provides financial assistance and other benefits to eligible people with disabilities and their families. The ODSP Employment Supports program works with community service providers to help people with disabilities prepare for and find jobs, keep a job and advance their career. The program can also help people with disabilities become self-employed.

Ontario Works (OW): The Ontario Works Program provides income and employment assistance for people who are in temporary financial need.

All recipients of Ontario Works are required to participate in one or more employment assistance activities as a condition of eligibility for financial assistance. This helps people move as quickly as possible to a job and to become self-reliant.

Option: a contract that confers the right, but not the obligation, to buy or sell a specific amount of a commodity, currency or security at a specific price, on a certain future date.

Productivity Growth: increase in output per unit of a factor of production in the economy.

Program Expense: the expense related to operating and capital programs including amortization.

Public Accounts: the Consolidated Financial Statements of the Province along with supporting statements and schedules as required by the *Financial Administration Act*, *Treasury Board Act* and *Management Board of Cabinet Act*.

Real GDP: gross domestic product measured to exclude the impact of changing prices.

Reserve: an amount included in the fiscal plan to protect the plan against unexpected and adverse changes in the economic outlook, or in provincial revenue and expense. Any portion of the reserve not required at year-end is used to improve the surplus/deficit.

Results-Based Management: a comprehensive, government-wide approach that informs results-based decision-making, ensuring that all government-funded activities are aligned with strategies that contribute to meeting government priorities or serve an important public interest.

Single-Tier Municipality: a city or town that is not part of a county or region.

Structural Deficit: may occur when the growth of total government expense consistently outpaces the growth in total revenue over a period of consecutive years.

Surplus: the amount by which revenues exceed government expenses in any given year. On a forecast basis, a reserve may be included.

Syndicated Bond Issues: debt securities that are underwritten by a group of investment dealers.

Tangible Capital Assets: assets such as land acquired for transportation infrastructure, parks, buildings and other program use; and physical assets including highways and other transportation infrastructure, land and buildings.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Total Expense: sum of program expense and interest on debt expense.

Treasury Bills: short-term debt instruments issued by governments on a discount basis.

Upper-Tier Municipality: a county or regional government, which consists of at least two "lower-tier" municipalities, such as cities, towns, villages or townships.

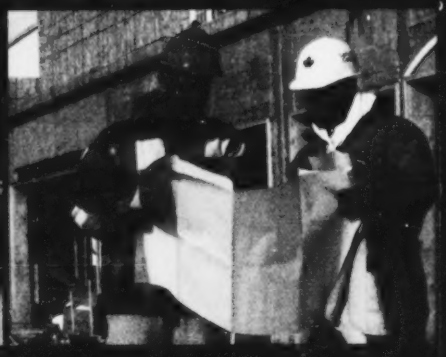
U.S. Commercial Paper (CP): short-term debt typically issued in the United States by a government or corporation on a discount basis. U.S. Commercial Paper is limited to terms of one to 270 days.

Weighted-Average Interest Rate: takes into account the proportion of debt at each level of interest rate in the debt portfolio.

Winding-up: the distribution of a corporation's assets to its shareholders in anticipation of the corporation being dissolved.

Yield: the effective rate of interest paid on an investment. Yield is the annual rate of return of any investment or debt and is expressed as a percentage.

Yield Curve: the relationship between market yields and bond maturities. It is often upward-sloping with maturity, due to investors' requirements for a greater yield when committing their funds for a longer time.



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